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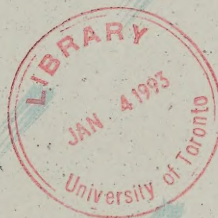
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Report Prepared for the Research Division  
Royal Commission on National Passenger Transportation

***Intercity Passenger Bus Regulation In Canada***

Peat Marwick Stevenson & Kellogg  
July 1991

RR-02







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Opinions expressed are those of the  
authors and not necessarily those of  
the Royal Commission on National  
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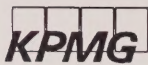
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## Project Report

### **INTERCITY PASSENGER BUS REGULATION IN CANADA**

#### **Prepared for**

**The Royal Commission on National  
Passenger Transportation**

P.O. Box 1665, Station "B"  
Ottawa, Ontario  
K1P 6P8

#### **Submitted by**

**Peat Marwick Stevenson &  
Kellogg**

Frank E. Collins  
Thomas H. Lightbown  
Julian F. Woods



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## Introduction

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This report documents the results of a comprehensive evaluation of Intercity Bus Regulation in Canada on behalf of the Royal Commission on National Passenger Transportation. The Terms of Reference state that the purpose of the study is "to analyze the rationale for, and evaluate the effects of, intercity bus regulation in Canada". This is understood to include:

- ▶ a portrait of the Canadian Intercity Bus Industry;
- ▶ a description of the main provincial regulatory regimes;
- ▶ an examination of the socio-economic objectives of regulation;
- ▶ an analysis of the economic effects of regulation in the light of these objectives, specifically the impact on efficiency, prices and quality of service;
- ▶ evaluation of other policy instruments that might be available to meet the objectives;
- ▶ examination of concerns that have been expressed relating to the dismantling of current regulatory arrangements; and,
- ▶ an examination of changes in other areas of federal and provincial policy that may be necessary in the event of a decision to reduce direct regulation of intercity bus transportation.

### A. Approach

The research effort has focussed on a quantitative and qualitative investigation involving a combination of the following elements.

- ▶ Review of the literature;
- ▶ Survey of intercity bus carriers;
- ▶ Survey of regulatory authorities;

- Case study of the effects of deregulation in the State of Michigan.

## **1. Review of the literature**

Peat Marwick Stevenson & Kellogg conducted an extensive review of the available literature on the subject, both in Canada and other countries, notably in the United States and the United Kingdom. A list of the principal documents and reports reviewed for this purpose may be found in Appendix A.

## **2. Survey of Intercity Bus Carriers**

We conducted face-to-face and telephone interviews with five intercity carriers that provide service in the provinces of British Columbia, Alberta, Saskatchewan and Ontario. Two carriers located in Québec were invited to participate but we were unable to complete discussions with them.

## **3. Surveys of Regulatory Authorities**

Discussions were held with top officials of the various Regulatory Authorities responsible for the regulation of the Bus Industry in all ten provinces, and with the National Transportation Agency in Ottawa.

## **4. Michigan Case Study**

A special study of the effects of deregulation in the State of Michigan was undertaken. Since 1983 when it effectively deregulated intrastate bus transportation in parallel with Federal deregulation of interstate bus transportation, this State has been the most deregulated jurisdiction in North America. It thus provides an interesting laboratory for tracing the effects of competitive forces in the marketplace.

# **B. Report Structure**

The remaining sections of the report are structured around the various issues considered. Section II offers a profile of the Canadian Intercity Bus Industry in terms of its organization and ownership, its market characteristics and the manner in which it has performed in the last ten years. This is followed by a description of the current regulatory framework for the Bus Industry focussing, in particular, on the manner in which the legislation has been viewed and applied by the various regulatory authorities in this country. The effects of this regime are then discussed in terms of the benefits and costs of meeting the social objectives of public policy, in light of the Canadian, American and other histories of regulation and deregulation of the Industry. This is followed by a summary of our findings, a discussion of alternatives for achieving the social objectives of public policy without regulation, and a discussion of the changes that may be required in the event of deregulation of the intercity bus industry in Canada.

Four appendices are attached. A list of documents reviewed is given in Appendix A. Appendix B provides the names of the principal organizations contacted. Appendix C provides summary information about the experiences of deregulation in the United States and the United Kingdom with a focus on the State of Michigan. Appendix D provides further information on current programs for the intercity bus industry in the State of Michigan.

## **C. Acknowledgements**

We gratefully acknowledge the assistance of the numerous regulatory officials and representatives of carrier organizations who provided much of the information on which this report is based.





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## II

### ***The Canadian Bus Industry***

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The present section provides a profile of the Canadian **Intercity Passenger Bus Industry** in terms of its structure and ownership, its market characteristics, and its performance over the last decade.

#### **A. Structure and Services**

The Intercity Passenger Bus Industry (Industry Group 4572) is one of three segments of the Motor Carrier Passenger Industry distinguished by Statistics Canada for statistical reporting purposes. The other two are not the subject of this analysis. They include urban transit and a miscellany of other passenger bus establishments engaged in performing contract (primarily school bus), charter, sightseeing, taxi and various other surface passenger transportation services.

This industry is divided for statistical reporting purposes into three classes. Class 1 carriers constitute those establishments earning gross annual operating revenues in excess of \$2 million; Class 2 includes all carriers with gross revenues in the range of \$0.5-\$2 million; and Class 3 includes carriers with gross earnings of between \$250,000 and \$500,000 per year.<sup>1</sup> Of the twenty two carriers reporting in 1988, twenty were Class 1 and 2 carriers and two were Class 3 carriers.

The actual number of intercity bus carriers in Canada is difficult to determine since the several "statistical" sources do not agree. As noted above, Statistics Canada provided information for twenty-two Class 1, 2 and 3 carriers in 1988. The Official Canadian Bus Guide (published by Russell's Guides) lists 44 corporate entities that currently (April 1991) provide scheduled intercity service. BusRide (1990 Bus Industry Directory) lists 94 carriers that claim to provide "intercity" service. Some of these appear to provide principally charter services. For most of the 94 operators, almost all of their fleet is "highway motor coach" (GMC, Prévost, MCI). The addition of five other known intercity carriers that are listed by neither Russell's nor BusRide brings the total industry count to approximately 100 carriers.

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<sup>1</sup> This represents a change from previous years where Class 3 included carriers earning in excess of \$100,000 annually.

Based on discussions with the publisher of BusRide, it appears that the number of carriers reported is exaggerated by the design of their survey questionnaire. Russell's Guide, however, publishes the timetables of the carriers they qualify as "intercity". Considering that not all carriers may be covered by Statistics Canada's reporting, it would appear that the industry includes something in the range of 25 to 45 carriers.

We conclude, however, that the carriers reported by Statistics Canada represent the vast majority of revenues generated by the industry.

## 1. Industry Concentration

The Industry is highly concentrated, being dominated by Greyhound Bus Line, the intercity passenger arm of Greyhound Lines of Canada Ltd, a publicly-held corporation whose shares are traded on the Toronto Stock Exchange. This company provides intercity passenger service from British Columbia through all provinces east to Ontario. In this respect it is the only intercity bus company that may be considered "national" in scope. Its importance may be gauged from the fact that in 1988, Greyhound Bus Line earned \$132.9 million from scheduled, charter and courier express operations, 40% of total industry revenues of \$332.9 million reported by Statistics Canada for that year.

Recent analysis by Dennis Ward of Transport Canada Economic Research<sup>1</sup> reveals that the five largest carriers have increased their market dominance since 1980 from 69.7% of intercity passengers carried to 86.6% in 1987.

The industry is also characterized by a high degree of concentration on individual routes. As described in detail in Section III.C ("The Provincial Regulatory Regimes"), exclusive operating authorities have been given to carriers for defined routes. Nevertheless, this is not uniformly the case. Our research indicates that the Province of Ontario has allowed a large number of routes to be served by more than one carrier beginning in 1977.

## 2. Industry Regionalization

The Industry is also highly regionalized, all provinces having at least one major carrier with some, such as Ontario and (more recently) Québec, having a number of regional carriers within the province. The following illustrate the provincial focus of activity of the major intercity bus operations:

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<sup>1</sup> Dennis Ward. *Profile of the Intercity Bus Industry. Working Paper. Transport Canada Policy and Coordination Directorate, Economic Research Branch, October 1990.*



<u>Carrier</u>	<u>Principal Province(s) Served</u>
▶ Pacific Coach Lines	(British Columbia);
▶ Greyhound Bus Lines	(B.C., Alberta, Sask., Manitoba, Ontario);
▶ Saskatchewan Transportation Company	(Saskatchewan);
▶ Grey Goose Lines	(Manitoba);
▶ Canada Coach Lines Limited	(Ontario);
▶ Gray Coach Lines, Limited	(Ontario);
▶ Ontario Northland	(Ontario);
▶ Voyageur Colonial Limited	(Ontario);
▶ Autobus Auger Inc.	(Québec)
▶ Autocars Orléans Express, Inc.	(Québec);
▶ SMT (Eastern) Ltd.	(New Brunswick);
▶ Island Transit	(Prince Edward Island);
▶ Acadian Lines	(Nova Scotia);
▶ Mackenzie Bus Line Ltd.	(Nova Scotia);
▶ Terra Transport	(Newfoundland).

The geographic dominance of each of these carriers varies from Province to Province. Greyhound is pervasive in the West, particularly in Alberta (where it has a virtual monopoly of non-urban services) and British Columbia (Pacific Coach has only one route in B.C. between Vancouver and Victoria via the ferry). However, the locally-based "flag" carriers in Saskatchewan and Manitoba control about two-thirds of the routes in their respective provinces. Ontario and Québec are more regionalized. While most of these carriers are identified with one Province or provincial region, they often offer some service in neighbouring provinces, and their charter operations may extend over much wider areas. The several carriers "interline" at convenient points to provide a more or less continuous network of intercity services across the country.

All carriers are subject to provincial regulatory control with the exception of Terra Transport which is Federally regulated by the National Transportation Agency. Saskatchewan Transportation Company, the Ontario Northland and Island Transit (P.E.I.) are wholly owned by their respective provinces. The remainder (except for the CN-owned Terra Transport) are controlled and operated by the private sector.

### **3. Industry Services**

While Intercity Passenger Bus carriers are primarily engaged in scheduled (regular route) interurban and rural bus operations, they also provide other services such as charter and tour services, contract (e.g., school bus), and bus parcel express (BPX) services. However, in contrast to the situation in the United States, the charter/tour segment of this industry is not well developed. Only \$39.7 million of the \$332.9 million total earned in 1988 (11.9%) was generated by charter/tour operations.

This distribution of revenues, however, is an average for the industry. Some carriers with intercity route authorities are essentially charter operations. Based on our survey, and excluding these latter operators, charter, tour and BPX revenues may represent from 20-50% of total revenues for some carriers.

Most feeder and rural route services are provided by a variety of smaller, family-owned enterprises using minibuses, second-hand buses or modified school bus equipment. The small "mom and pop" operator can survive in this environment due to revenues from personal package, grocery and newspaper deliveries, lower overheads (e.g., no terminal requirements) and cheaper (owner-drive) labour.

## **B. Market Characteristics**

The market characteristics of this industry are discussed under the headings of demand and supply characteristics, vehicle characteristics, and competition among the modes.

### **1. Demand Characteristics**

Intercity bus passenger surveys reveal that most travellers use the bus because it is the cheapest form of intercity travel, particularly for those who do not possess an automobile or who are unable to drive. We thus find a heavier concentration of persons of modest means such as students and older people, the unemployed, etc. than in the population as a whole. The main purpose of travel is recreational or visits to family and friends although there is some business travel on short-haul trunk routes such as Montréal - Ottawa.

The importance of economic factors is revealed in the sensitivity of travel to price changes and in the countercyclical nature of overall demand. Analyses by Oum and Gillen<sup>1</sup> suggest a price elasticity of demand of about -1.5, i.e., a reduction in price of 10% producing a 15% increase in passengers. Conversely, we would expect increases in the costs of alternative forms of transportation to have a significant effect on the demand for bus travel. It has been found in the United States, for example, that higher gasoline prices bring even greater increases in the demand for bus travel.

Countercyclical effects (the source of suggestions that bus travel is an "inferior good") are demonstrated by the fact that in times of recession, the demand for intercity bus travel often rises and falls again in times of prosperity. Thus, for example, the number of passengers carried at the height of the downturn in 1982 was up 2.4% over the previous year, fell slightly in 1983, then plummeted by nearly 15% when the recovery took hold in 1984.

---

<sup>1</sup>Gillen, David W. and Oum, Tae Hoom. *A Study of the Cost Structures of the Canadian Motor Coach Industry*. *Canadian Journal of Economics*, Vol. XVII, No. 2, May 1984.

## 2. Supply Characteristics

Intercity bussing services are provided across Canada essentially by a network of provincially based carriers that interline at their jurisdictional frontiers. As noted earlier, only Greyhound Bus Lines provides significant *interprovincial* service (from British Columbia to Ontario); virtually all other carriers provide only *intraprovincial* intercity bus service. According to the Official Canadian Bus Guide (published by Russell's Guides, Inc.), the intercity bus industry currently provides service to approximately 3,000 points in the ten provinces and the two territories. Ontario provides service to the greatest number of points (763). Saskatchewan is second in importance with 524 points served.

## 3. Vehicle Characteristics

The manufacture of intercity and charter bus equipment in Canada goes back to 1924 with the establishment of Prévost Car at St. Clair, Québec. Motor Coach Industries Limited (MCI), a subsidiary of Greyhound Lines of Canada Ltd, was subsequently established in Winnipeg in 1932. These two companies continue to provide the bulk of the standard intercity and charter coaches in use today. The current standard is a 47-seat temperature controlled luxury coach with reclining seats and adjustable head rests, individual reading lights, restroom and large push-out side windows designed to form exit openings in case of emergency. However, a larger articulated coach service has now been established between Montréal and Québec City, and is under consideration for other main intercity routes.

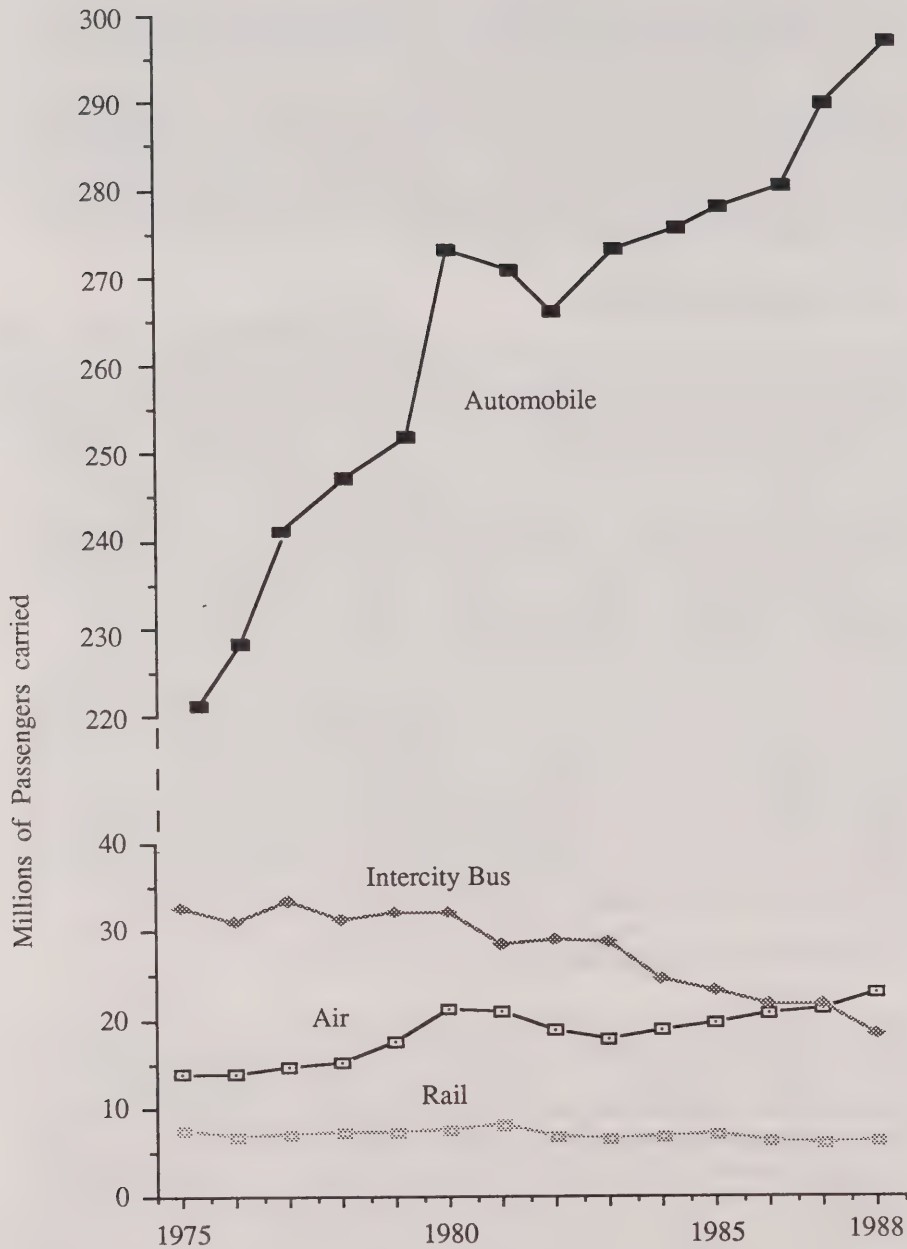
Recently-introduced customer service innovations include quick and easy customer access to bus fare and schedule information via toll-free 800 telephone hook-up, on-board entertainment (movies, stereo music channels), and on-board snack service. The Red Arrow "Executive" service between Calgary and Edmonton, and the Greyhound "Inter-City Express" are examples of these service improvements. The appearance of many downtown terminals has also been improved in recent years. However, recent studies suggest that public perception has not yet caught up with the reality of these service improvements.

## 4. Competition among Modes

The market for intercity passenger transportation services is derived from needs related to the size and distribution of population and to the structure and level of economic activity. The fortunes of the bus mode within this overall market are seen to vary over the years according to the relative strengths of competing modes of intercity passenger transportation, specifically the automobile, air and rail transportation modes. Thus, wartime restrictions placed on gasoline and tires, negligible automobile production, and the movement of large numbers of armed personnel during the Second World War created ideal conditions for the Industry to reach a peak of 145 million passengers carried in 1949. This figure was four times greater than the combined counts of passengers carried on all Canadian railways



EXHIBIT II-1  
PASSENGERS CARRIED BY MODE  
1975-1988



Source: Transport Canada Economic Analysis Directorate

and airlines that same year.<sup>1</sup> However, with a doubling of automobile production and an explosive 500% increase of airline patronage during the next decade, intercity bus ridership had fallen back to 55.6 million by 1960. It continued its decline (with the exception of 1967, the "Expo" year) throughout the 1960's, carrying 42.7 million passengers in 1969. By 1988, the most recent year for which complete statistics are available, the number for all Classes of carrier had reduced to 18.2 million. Monthly figures for Class 1 and Class 2 carriers to the end of 1990 show that patronage is still falling. In effect, intercity bus patronage today is now less than 13% of what it was in its heyday (in spite of a doubling of the Canadian population over that time).

Exhibit II-1 opposite compares this situation with that of the other modes over the period 1975 to 1988. This shows that the total market for transportation services has grown from 274.6 million in 1975 to 348.3 million passengers carried in 1988, a rate of increase of just under 2% per annum compounded. However, it is clear that much of this has resulted from the growth of automobile travel, the most direct competitor to the intercity bus. Automobile travel has increased at a rate of 2.4% per year from 220.6 million to 300.6 million passengers carried over the same period. By contrast, passengers carried by intercity bus have fallen from 32.6 million passengers carried in 1975 to 18.2 million in 1988, an average rate of decline of 4.4% per annum. While rail travel suffered a marginal decline, travel by air showed rapid growth of 4% per annum over this period.

A comparison of passengers alone is not the best measure of transportation output since it excludes the distance of travel involved. While statistics on passenger-miles or passenger-kilometers are not collected by Statistics Canada, estimates made in 1982 show that the share of the bus mode of total output fell from 2.7% in 1960 to 1.9% in 1970, and to 1.7% in 1979. The big winner during this time was the airline industry which increased its share from 2.8% to 12.5% of total passenger-kilometers generated by the transportation industry in Canada over the same period.<sup>2</sup> It appears that the intercity bus has been losing ground to the passenger automobile over short distances, and to the airlines over long-haul routes.

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<sup>1</sup>D.P. Anton. *The Canadian Bus Industry: its Growth, Share of the Market and Future*. Paper presented at the 4th Annual Meeting of the Canadian Transportation Research Forum, Vancouver, May 3, 1968.

<sup>2</sup> Paul F. Inglis and J. Robert Galarneau. *Development of the Canadian Highway Data Base*. Paper presented at the seventeenth Annual Meeting of the Canadian Transportation Research Forum, Montréal, May 1982.

**EXHIBIT II-2**

**THE CANADIAN INTERCITY BUS INDUSTRY**

**OPERATING PERFORMANCE 1978 TO 1988**

**(Classes 1-3 Carriers)**

Year	Passengers per 100 Bus- kilometers	Kilometers per Intercity Bus	Cost per Vehicle- kilometer <sup>1</sup>	Revenue per Vehicle- kilometer <sup>1</sup>	Revenue per Intercity Passenger
1978	18.0	140,756	\$1.100	\$1.190	\$4.66
1979	19.1	134,079	\$1.174	\$1.222	\$4.18
1980	16.2	143,227	\$1.251	\$1.327	\$5.32
1981	15.7	130,549	\$1.483	\$1.495	\$6.10
1982	15.2	142,952	\$1.590	\$1.655	\$7.28
1983	15.0	151,393	\$1.684	\$1.764	\$7.94
1984	13.7	143,088	\$1.705	\$1.764	\$8.72
1985	13.7	134,918	\$1.806	\$1.900	\$9.35
1986	12.7	145,192	\$1.809	\$1.922	\$10.01
1987	13.2	132,620	\$1.877	\$2.029	\$9.75
1988	11.6	128,727	\$2.038	\$2.119	\$11.46

Source: Based on analysis of Statistics Canada 53-215

<sup>1</sup>Costs and revenues per vehicle-kilometer include costs, revenues and distances associated with intercity and other major services provided by the intercity passenger bus industry.



## C. Industry Performance

The following section on industry performance is divided into a discussion of operating performance, followed by a review of the financial performance of the Industry.

### 1. Operating Performance

Operating performance may be discussed in terms of efficiency, price and quality of service factors. The Intercity Bus Industry is not required to report the level of detail required of other modes of transportation. This makes it difficult to provide more than a few broad insights into the operating performance of the industry. The recent study by Dennis Ward provides about as much detail as it is possible to distill from what is available<sup>1</sup>. The following is a brief summary of the situation, based in part on his findings.

#### a) Efficiency

Different measures may be used in evaluating the efficiency of intercity bus operations, depending on whether the focus is demand or supply-related. Analysis of passengers generated per 100 kilometers of output (the closest proxy to a load factor available with published statistics<sup>2</sup>) suggests that production efficiency has been falling over the past ten years. Exhibit II-2 shows passenger generation efficiency slipping from just over nineteen passengers per 100 vehicle-kilometers in 1979 to under twelve in 1988. Bus ridership has been falling at a faster rate than route-kilometers, suggesting that regulation has been successful in protecting services to some extent.

The companion fall in equipment utilization (distance operated per bus) suggests that intercity bus operators have been reducing the frequency and/or route miles of service over the period in an attempt to maintain profitability as demand has diminished. The problem of spreading fixed costs over reduced output no doubt also contributed to the doubling of costs per vehicle-kilometer over the period, somewhat greater than the equivalent revenue figure. It should be noted, however, that the cost figures reported by Statistics Canada include both scheduled and non-scheduled services operated by the intercity bus passenger industry.

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<sup>1</sup>Dennis Ward. *Op cit.*

<sup>2</sup>The most recent available published information on load factors provides a range of assumptions but is not based on actual counts made by carriers.

## **b) Price**

The proxy used for price is the revenue earned per intercity passenger. This has grown at an average rate of 9.4% per annum, well above the average of the transportation component of the consumer price index which grew at an annual rate of 7.3% per annum over the same period. Revenue per intercity passenger is now nearly two and a half times what it was in 1978.

Clearly, intercity bus operators have sought and obtained price increases sufficient to enable them to remain viable in a declining market. To what extent such action was a contributing cause of the decline in ridership over the period is unknown

## **c) Quality of Service**

Quality of intercity bus service is a somewhat intangible measure of the industry's output consumed by the travelling public. Quality may be defined in a number of ways including, among others, the average age of a particular operator's fleet (or more generally, the average age of the industry's fleet), the amenities offered on board, and the level of service provided. New buses in recent years have included more comfortable interiors, and some motor coaches boast lower capacity seating configurations as well as televisions, on-board snack service, and other amenities. This specialization of service, often targeting the business traveller, is considered to be a welcome improvement in quality in an industry where service has been viewed as basically undifferentiated regardless the traveller or the trip purpose. Some carriers' acceptance of payment by credit card represents an improvement in the quality of service (although it has been said that the acceptance by Greyhound in the United States of credit card payment has contributed to their current financial difficulties).

The only readily quantifiable measure of "quality" of service provided by the intercity bus industry is the coverage provided by the carriers. This may be measured by the number of points served by the industry across the country.

As shown below, the total number of points served has declined during the period 1978-1991, dropping from 3,428 to 2,978 or a loss of 13%. The decline was not uniform, however, since service was maintained, or increased, in some of the provinces (Saskatchewan and Manitoba). Most significant losses in service are shown in the case of New Brunswick.

Province	Points Served	
	1978	1991
British Columbia	336	258
Alberta	431	396
Saskatchewan	507	524
Manitoba	403	409
Ontario	878	763
Québec	291	218
New Brunswick	248	98
Nova Scotia	254	247
Prince Edward Island	5 (est.)	5
Newfoundland	38 (est.)	38
Northwest Territories	8	8
Yukon	29	14
<b>TOTAL</b>	<b>3,428</b>	<b>2,978</b>

The decreases in New Brunswick were discussed with representatives of the regulatory authority, and it was confirmed that significant reductions in service have been allowed in recent years.

## 2. Financial Performance

The financial performance of the intercity bus industry includes not only the results of intercity services, but also of charter, urban and other passenger services performed by this industry. However, revenue generated in intercity operations normally accounts for nearly two-thirds of total operating revenues.



**EXHIBIT II-3**

**THE CANADIAN INTERCITY BUS INDUSTRY**

**FINANCIAL PERFORMANCE 1978 TO 1988**

**(Classes 1-3 Carriers)**

<b>Year</b>	<b>Total Operating Costs (\$)</b>	<b>Total Operating Revenues (\$)</b>	<b>Revenue s from Intercity Operations (\$)¹</b>	<b>Operating Ratio</b>
1978	210,452,061	227,676,182	148,617,911	0.92
1979	222,974,042	232,153,930	150,651,241	0.96
1980	254,134,882	269,552,781	172,718,017	0.94
1981	274,291,105	276,505,377	175,237,477	0.99
1982	314,509,793	327,341,728	216,422,765	0.96
1983	327,289,430	342,947,022	228,645,031	0.95
1984	311,696,349	322,356,274	214,657,481	0.97
1985	313,450,416	329,769,413	218,453,174	0.95
1986	316,076,793	335,859,900	218,397,465	0.94
1987	320,795,724	346,873,145	220,162,433	0.92
1988	320,035,906	332,855,107	208,459,765	0.96

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¹ *Passengers and parcel express.*

Exhibit II-3 **opposite** shows that, by and large, total operating revenues have kept pace with total operating costs, both of which have increased by about 50% over the period. The results may be seen in the operating ratio which was about the same at the end of the period as it was at the beginning.

It is interesting to note that total operating revenues (i.e., revenues derived from all services offered by the intercity passenger bus industry, including scheduled service, charter, BPX, etc.) has grown at a faster rate than revenues from intercity operations alone. Industry representatives generally indicate that their charter and BPX business is more profitable than regular route operations. The significance of this depends on the nature of each carrier's business. In some cases, intercity carriers generate very little charter revenues; other carriers are principally charter operators with limited regular route authorities. This could indicate a trend towards increasing cross-subsidization from the growing charter and other non-scheduled or contract segments of the intercity passenger bus business. In any event, the after-tax rate of return on equity for Class 1 and Class 2 carriers has also been good as the following Statistics Canada information (52-315) will testify (in \$millions).

Year	Net income (Current \$)	Net Income (Constant 1978 \$)	Owners' Equity	After tax return on Equity (%)
1978	24.3	24.3	96.3	25.2
1979	49.8	45.6	126.6	39.3
1980	23.9	19.9	143.0	16.7
1981	24.8	18.4	134.7	18.4
1982	27.4	18.3	136.2	20.1
1983	10.4	6.6	119.3	8.7
1984	14.2	8.6	120.8	11.8
1985	17.1	10.0	106.8	16.0
1986	14.0	7.8	117.1	12.0
1987	50.3	26.9	119.8	42.0
1988	26.9	13.8	130.2	20.7

While there have been some considerable variation in earnings over this period, we would have to agree with the Dennis Ward analysis, that, on the average, the owners have done remarkably well by this industry.

## **D. Summary**

The above analysis reveals a decline in demand for the Canadian intercity bus since the 1950's, both in terms of total ridership and in terms of its share of the growing intercity travel market. In this context, and given the existing regulatory situation, there was only one way for a carrier to expand its operations — by taking over the route authority of another carrier. The result was greater concentration of the industry through mergers and take-overs. However, because of provincial jurisdictional divisions, this concentration tended to become regionalized (in contrast to the situation in the United States which saw the emergence of two national carriers). With the partial exception of Greyhound Lines in Western and Central Canada, each province saw the rise of one (or perhaps two) large carriers from among a number of smaller operators. Ontario has proven to be an exception to this rule with six larger intercity carriers. It is noteworthy also that Ontario has permitted service and competition on a number of routes beginning in 1977.

The performance indicators suggest that the industry has been able to remain viable in the face of declining ridership and increasing costs by cutting back service (route kilometers) and raising prices. This was accomplished at the cost of operating efficiency (since route-kilometers fell at a slower rate than passengers). Furthermore, fixed costs were spread over a reduced output, making unit costs difficult to control. Finally, it is also possible that the efforts of unionized labour have succeeded in pushing the wage bill higher as prices went up and company profits allowed.



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### III

## *Economic Regulation*

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### **A. Regulatory Framework**

Jurisdictional responsibility for the regulation of transportation in Canada was originally laid out by the British North America Act of 1867 (BNA). The powers of the Parliament of Canada at that time were in respect of marine and railway facilities as well as "such works, within the Province declared by Parliament to be for the general advantage of Canada or of two or more Provinces". This resulted in a regime whereby the Federal government has responsibility for marine services, inter-provincial railways and pipelines and civil aviation. The Provinces are generally responsible for intra-provincial railways and pipelines, and for highway transport.

The decision in the Winner case in 1954 determined that, under section 92 (10)(a) of the BNA the federal government had jurisdiction over the intraprovincial operations of companies also engaged in extraprovincial transport, as well as over extraprovincial motor transport. The federal government thereafter passed the Motor Vehicle Transport Act of 1954, pursuant to which federal responsibility for regulation of extraprovincial bus and truck transport was delegated to the provincial regulatory authorities. This continues to be the situation today.

In July 1985, the Minister of Transport revealed for public comment his proposals for economic regulatory reform in a document entitled "Freedom to Move". This eventually led, after much study and discussion, to passage of a major new legislative initiative in the form of the National Transportation Act, 1987 (NTA) and the Motor Vehicle Transport Act (MVTA), 1987. The NTA in particular contains a revised policy section (Section 3) which contains some significant changes in emphasis from the old Section 3 of the 1967 version of the Act. The most significant for present purposes are those additions to the old text which promote competition "both within and among the various modes of transportation" (Section 3 (1)) and require that:

- ▶ "competition and market forces are, whenever possible, the prime agents in providing viable and effective transportation services" (Section 3 (1)(b)), and that,
- ▶ "economic regulation of carriers and modes of transportation occurs only in respect of those services and regions where regulation is necessary to serve the transportation needs of shippers and travellers and such

regulation will not unfairly limit the ability of any carrier or mode of transportation to compete freely with any other mode of transportation" (Section 3 (1)(c)).

Section 3 (2) of the NTA has also been added to make it easier to enter into agreements with the provinces on matters of national importance in transportation (e.g., to promote uniformity in the case of trucking regulation).

The regulation of extra-provincial bus transport is covered by the Motor Vehicle Transport Act, 1987 although Division I of Part IV of the NTA does deal with extra-provincial bus undertakings that have been exempted from the application of the MVTA (currently limited to Terra Transport in Newfoundland). However, in practice nothing has really changed with respect to regulation of the intercity passenger bus industry, since Sections 5 and 6 of Part I of the MVTA allow the provincial regulatory boards to issue licences and regulate tariffs and tolls for extra-provincial bus undertakings "on the like terms and conditions and in the like manner as if the extra-provincial bus undertaking were a local bus undertaking". In this manner, the provinces have simply carried on "business as usual" as far as the Canadian bus transportation is concerned.

## **B. Rationale for Regulation**

Government has seen fit to regulate the supply of transportation services — typically involving some combination of controls over market entry and exit and the pricing of services, in order to achieve one or more of the following social and economic objectives:

- ▶ protect consumers from market domination by one or a small number of suppliers (monopolistic control leading to uncompetitive practices such as predatory pricing), or to avoid duplication of expensive resources. This is usually related to perceived economies of scale and entry barriers related to the capital intensive nature of a transportation service such as a railroad or an airline;
- ▶ promote service and price stability in the transportation marketplace;
- ▶ ensure an adequate and equitable level of service to all by permitting cross-subsidization between profitable and non-profitable routes in the network;
- ▶ ensure the efficient coordination of the various modes of transportation;
- ▶ promote greater utilization of transportation capacity;
- ▶ promote regional economic development objectives;
- ▶ ensure safety of operation.

## 1. Bus Regulation in Canada

In tracing the history of economic regulation of the Canadian bus industry, it becomes evident that the rationale has tended to shift over the years with the changing times and fortunes of the industry. Four major regulatory periods are distinguishable.

Regulation was first introduced in the 1920's and early 1930's to meet problems related to the unusual economic conditions of the time. This was a period of rapid growth of buses and bus operations as the highway network was improved and expanded to all parts of the country. However, the onset of the depression appears to have resulted in a surplus of supply over the demand for intercity bus travel, leading to intense competition for a reduced intercity passenger market base. The problem was compounded by the fact that ease of entry into the industry was greatly facilitated by a lowering of costs as the price of labour and used vehicles fell. The various governments thus came under pressure to bring some stability to the industry by limiting the number of operators, and by regulating fares at a level sufficient to provide a reasonable rate of return on investment. Appendix II of the Report by the Royal Commission on Railways and Transportation in Canada, 1931-32 suggests that the original licensing policy had the desired effect. It reads in part as follows (paragraphs 71 and 72):

"The exclusive permit has resulted, in the case of the motor coach, in securing to the public good service and the main defect in a monopoly, that of excessive rates, has been kept in check by departmental supervision. Indifferent service is not to be feared like a Street Railway or a Power or Light Company, for the permit can be revoked and granted to another where the capital in fixed and unrealizable plant is comparatively insignificant.

If the free-play of competition does not produce good results and makes regulation of motor transport more difficult, and the attainment of satisfactory standards of service impractical then the provincial authorities would seem to be justified in introducing the exclusive element into their permits to operate, not for the purpose of creating property rights, but for the purpose of better regulation and control of the traffic."<sup>1</sup>

Clearly, the problem was not one of control of the marketplace by a capital intensive monolith, but, on the contrary, the instability that results from too much "destructive" competition, a condition that the creation of route monopolies through licensing was designed to alleviate.

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<sup>1</sup>Quoted by D.P. Anton. *The Canadian Bus Industry: its Growth, Share of the Market and Future*. Paper presented at the 4th Annual Meeting of the Canadian Transportation Research Forum, Vancouver, May 3, 1968.



However, these conditions did not last long. The depression was soon followed by economic recovery and war. Intercity passenger bus ridership soared as a result of wartime conditions that included negligible automobile production, restrictions on the sale of gasoline and tires, and the movement of large numbers of servicemen about the country. The apogee of this period of explosive growth was reached in 1949 when a total of 145 million passengers were carried by intercity bus, four times the combined counts of passengers carried on all Canadian railways and airlines that same year. During this so-called "Golden Age" of intercity bus travel, the prospect of increasing demand made it possible to allow carriers sufficient revenues on trunk routes for them to cross-subsidize expansion into lower density areas of the country. In this manner, the rationale for regulation tended to shift away from its original intent (i.e., the restoration of order and stability to the industry in the interests of the public), and began to focus more on creating conditions for the expansion of services into rural hinterlands.

With the resumption of automobile production and the increasing popularity of air travel (which increased 500% during the 1950's), intercity bus volumes quickly returned to a more modest level and were down to 55.6 million passenger in 1960. This was still more than double the passengers carried by the railways and airlines combined, but it heralded the end of market dominance by the industry, and the beginning of a decline that continues to this day. Thus, the 1988 total of 18.3 million passengers carried by the intercity bus industry is barely 60% of the numbers of passengers carried by the other two public modes of passenger transportation.

This loss of market share appears to have prompted a return to a more defensive posture on the part of the provincial regulatory authorities with respect to the bus mode. Study, discussions with these bodies and review of the literature suggest that, until very recently at least, regulation has been primarily concerned with protecting the existing route network, particularly in politically sensitive rural areas where the bus is, more often than not, the only public means of transportation available. Route or charter exclusivity was the carrot offered in return for an implied undertaking to cross-subsidize unprofitable services in the public interest.

As mentioned above, the wave of regulatory reform of the mid-1980's, resulting in passage of the Federal National Transportation Act, 1987 (NTA) and the Motor Vehicle Transport Act, 1987 (MVTA), left the regulatory scheme for the intercity bus industry largely untouched. Nevertheless, it is clear from a number of recent decisions by provincial regulatory authorities that a further shift is currently underway towards a more "hands off" regulatory philosophy for the industry. Examples include recent legislation in New Brunswick and Prince Edward Island in conformity with the reverse onus provisions of the MVTA, the effective deregulation of the charter segment of the industry in Alberta, and recent decisions in Québec allowing the break-up of the important Voyageur network among five independent bus operators. The new NDP government in Ontario also appears to be taking a fresh look at the manner in which the various transportation systems of that province are being managed.

## **2. The Socio-economic Objectives of Regulation**

The regulatory legislation and regulations in the various provinces do not provide much in the way of explicit policy statements with regard to the socio-economic objectives to be served by regulatory control of the intra-provincial bus systems. While we did not conduct an analysis of provincial transport board decisions, the discussions that we had with spokespersons of the various regulatory authorities across the country revealed that there are currently three major concerns or objectives of intercity bus regulation as follows:

- ▶ Safeguard scheduled intercity bus service in outlying areas of the provinces;
- ▶ Provide a low-cost transportation option on competitive routes;
- ▶ Ensure stability, reliability and safety of service.

The first, and by far the most important objective, is to retain scheduled bus service to outlying areas of the different provincial networks, particularly to towns and villages where intercity bus is the only available public mode, or to points which stand to lose air or rail service under present competitive or financial policies for these modes. The view appears strongly entrenched in intercity bus regulatory circles, that entry and rate control is needed to provide the carriers with the necessary revenues from the more profitable segments of their networks to support services to these marginal or unprofitable service points.

The second major objective is to maintain a low-cost transportation option on the intermodal competitive segments of provincial transportation networks to preserve access to low income groups, as well as to put downward pressure on air and rail fares, and on the use of the automobile. This objective may be incompatible to some extent with the higher rates necessary for cross-subsidization to occur.

Implicit in the above two objectives is a third objective of ensuring stability, reliability and safety of intercity passenger bus service.

Whether these objectives may best be served by regulation is a moot point which can best be resolved in the light of the experience gained in other countries.

## **C. The Provincial Regulatory Regimes**

The following discussion of the regulatory regimes existing in the various provinces is based on review of the relevant provincial statutes, and discussion with responsible regulatory officials in each jurisdiction in order to understand the manner in which the legislation is interpreted and implemented. A list of the persons interviewed in this connection is given in Appendix B.

## 1. British Columbia

The regulation of intra-provincial bus transportation in British Columbia is administered by the B.C. Motor Carrier Commission under the authority of the B.C. Motor Carrier Act. Extra-provincial services are regulated "as if" they were intra-provincial services.

Bus operations in the province are strictly regulated as to entry, exit and fares. The province is unique in making explicit the socio-economic and safety objectives to be served by regulation. Section 36 of the Act specifies the duty of the Commission to regulate motor carriers (buses and trucks) for the purposes of:

- ▶ promoting adequate and efficient service;
- ▶ promoting reasonable and just charges;
- ▶ promoting safety on the public highways;
- ▶ fostering sound economic conditions in the transportation business of the province.

Services are divided between those provided by a public passenger vehicle (i.e., one that provides regular route service for a fee according to a schedule) and those provided by a limited passenger vehicle (including charter, tour and other types of non-scheduled or contract service). The former (regular route) type of service must be performed under the authority of a **public passenger vehicle licence** issued by the Commission. Charter/tour services require a **limited passenger vehicle licence**. However, operators of public passenger vehicles are also allowed to provide charter services from points served in the schedule. The Commission is required to specify the number of vehicles to be operated under a given licence.

Would-be new entrants who apply to serve a regular route must present a case for public convenience and necessity before the Commission who, according to the Act (Section 5 (2)), "may take into consideration, among other matters:

- ▶ any objection to the application for the licence made by any person already providing transport facilities, whether by highway, water, air or rail, on the routes or between the places which the applicant intends to serve on the ground that suitable facilities are or, if the licence were issued, would be in excess of requirements, or on the ground that any of the conditions of any other licence held by the applicant have not been complied with;
- ▶ the general effect on other transport services and any public interest which may be affected by the issue of the licence:
- ▶ the quality and permanence of the service to be offered by the applicant, and the fitness, willingness and ability of the applicant to provide proper service."



In practice, these conditions are much more rigorously applied in the case of applications for regular route service than for applications for charter service. The vast majority of applications received before the Commission are therefore for charter service. In the last year only one application for regular route service was received, and this was turned down (the case is currently under appeal). The attitude of the Commission appears to be that the province is well served in regular route service by the existing carriers, notably Greyhound, and that the market is too thin to support competition on existing routes (though in theory there is nothing to stop the Commission from introducing competition where this can be shown to be warranted).

Service changes, including discontinuance, extension or transfer of service to another carrier are also subject to strict control and approval by the Commission. One case of discontinuance of service was approved by the Commission last year involving a service in the interior that had been losing money for some years. However, since Greyhound also operated on the route, the service was simply transferred to Greyhound who were asked to "open their doors" at the relevant intermediate service points.

Rates are also controlled and must be filed with the Commission. All changes in rates must receive the approval of the Commission.

## **2. Alberta**

The regulation of all intra-provincial "public vehicle" operations in Alberta, including vehicles used for the intercity transportation of passengers, is administered by the Motor Transport Board under the authority of the Motor Transport Act (Alberta). Extra-provincial services are regulated "as if" they were intra-provincial services. Additional regulations regarding charter buses are contained in Regulation 426/86.

In theory, all public vehicle operations must be conducted in accordance with the terms and conditions of an operating authority certificate or similar instrument issued by the Board. However, there is a difference in the treatment of the goods and passenger sectors. Trucking is effectively deregulated. There is also a difference of treatment between regular route and charter service. The intra-provincial charter bus segment has been effectively deregulated. A Charter Certificate is usually approved once the Board is satisfied that the applicant has sufficient passenger hazard coverage insurance and has passed a safety inspection. The relative freedom from regulatory control enjoyed by the trucking sector in Alberta is evidently spilling over into a more relaxed mode of regulation for the intercity bus sector.

The regular route sector is still regulated but there is no statutory guidance as to the criteria to be used in reviewing applications for new services. In practice, the Board will generally consider such matters as the need for the service, the adequacy of the existing service, the fitness of the applicant to perform the service and anything that is likely to endanger the public interest. However, the quasi-monopoly status of



Greyhound in the province limits the possibility of putting up a serious challenge to this company's regular route services. New applications are a rarity, and the Board has never granted an operating authority that duplicates an existing service over the same route.

The Board usually allows carriers to discontinue unprofitable regular route service after the company has experimented with a period of reduced service along the route. No certificate may be capitalized, sold, assigned, leased or transferred without approval in writing from the Board. This is also a rare occurrence, owing to the domination of Greyhound in the province.

Rates are not directly controlled. Rather the Board sets a maximum rate per mile for the province as a whole. Greyhound does apply for general rate increases from time to time, and these are decided on the basis of a review of system-wide costs. The concern is to permit a level of fares sufficient to safeguard the accessibility and level of service to the public.

### **3. Saskatchewan**

The regulation of intra-provincial bus transportation in Saskatchewan is administered by the Saskatchewan Highway Traffic Board under the authority of the Saskatchewan Motor Carrier Act. The only difference between the regulation of intra-provincial and extra-provincial operations is that the province regulates intra-provincial but not extra-provincial fares.

Bus operations in the province are strictly regulated as to entry, exit and fares. Regular route and charter bus services both require an operating authority certificate granted by the Board. According to Section 4 (2) of the Act, the Board is required to evaluate all new applications (for any form of passenger or goods transportation service) according to whether the "public business will be promoted by the proposed undertaking"; and also by the "fitness of the applicant". In practice, these conditions are interpreted in a manner which places the burden on the applicant to show the need for the proposed service and to demonstrate his fitness to provide it. It is also relatively easy for an opponent to show damage to an existing service — particularly in a rural province like Saskatchewan. In practice, the procedure amounts to a test of "public convenience and necessity".

The province did flirt with relaxation of the rules for new charter applications along the lines of the Alberta regulation, but this decision was reversed after about six months due to a flood of "frivolous" applications from small, undercapitalized newcomers.

Board approval is also required for carriers seeking the transfer of all or any part of a licence. Furthermore, due to the existence of operating subsidies for uneconomic routes, the Board will entertain requests for abandonment only as a last resort. However, several requests for frequency reductions on a number of routes are currently under review.

The Saskatchewan Board prescribes a maximum rate per mile fare for scheduled intercity bus service in consultation with the carriers, who are allowed to set their own fares as long as the rate is at or below the prescribed rate. Any proposal to set a rate above the prescribed rate requires the approval of the Board.

Saskatchewan accords great importance to the provision of adequate public transportation services to its citizens. Due to the low densities and long distances on many routes, the Province has found it necessary to subsidize most of its intraprovincial bus operators under the "Bus Subsidy Program" and the "Rural Transportation Assistance Program" or RTAP. The latter program is designed to sponsor a system of small van routes to feed the linehaul of the regular routed bus operators.

#### **4. Manitoba**

The regulation of intra-provincial bus transportation in Manitoba is administered by the Manitoba Motor Transport Board under the authority of the Manitoba Highway Traffic Act and the Public Utilities Board Act (in respect of fare regulation). Extra-provincial services are regulated "as if" they were intra-provincial services.

Bus operations in the province, like all other "public service vehicles" (p.s.v.'s), are strictly regulated as to entry, exit and fares. Brandon - Winnipeg is the only significant intra-provincial route, and regulation is considered necessary to ensure that the population throughout the province has access to a satisfactory frequency of scheduled bus service. Thus, anyone wishing to operate a "p.s.v. for passengers", whether on a regular route or for charter or tour purposes, must hold a public service vehicle certificate approved by the Board for the year in which it is issued (section 284 of the Act). Currently, the board regulates three regular route carriers (Greyhound, Grey Goose, and Beaver Bus Lines), and about a dozen charter/tour operators.

In order for a would-be operator to obtain such a certificate, he must normally convince the Board at a public hearing that "the existing facilities are insufficient, or that public convenience will be promoted by the establishment or continuance from year to year of the proposed transportation service..." (Section 290 (2)). In practice this means that the applicant must prove that his proposed service is needed, that he is financially fit, and that he can obtain the necessary equipment. In spite of the fact that there is nothing to "preclude the granting of a certificate for the operation of any similar vehicle on the same highway or portion thereof..." (Section 290 (7)), it is usually not difficult for an opponent to show that he will be harmed if such an additional certificate is authorized.

No certificate holder is allowed to "abandon or discontinue any service...without the authority of the transport board" (Section 299). In practice, this means that a carrier wishing to discontinue any part of a service specified in the certificate must demonstrate through seat, passenger, and financial data that the service is unprofitable, and the board usually requires some trial reduction in service before

consenting to total abandonment. Approval of the board is also required to authorize the sale, transfer or re-assignment of routes or services shown on the p.s.v. certificate.

The board has complete control over tolls and charges, establishes the actual fares to be charged for regular route service, and sets an upper per mile fare limit for charter operations. These fares are calculated on an annual basis from financial and operating data submitted by the carriers. The pricing rule is derived from the Public Utilities Board Act allowing a rate of return base that includes, as basic elements:

- ▶ the original or historic cost of the assets successfully and prudently acquired and used, less depreciation,
- ▶ a reasonable amount for the working capital required for the operation of the business.

While carriers have the right to apply to the board for a revision of the prescribed tariff (Section 291 (2)), this is not a common occurrence and requires a public hearing.

## **5. Ontario**

The regulation of intra-provincial bus transportation in Ontario is administered jointly by the Minister of Transportation of Ontario (MTO) and the Ontario Highway Transport Board (OHTB) as a result of a 1955 amendment to the Public Vehicles Act (which also transferred jurisdiction for the regulation of trucking to OHTB from the Ontario Municipal Board). The MTO retains the active decision-making role of issuing the operating licences under advice of a certificate from the OHTB. The OHTB caseload is concerned largely with changing charter rights, revising fares, tariffs, and the transfer of licences. In all, about 500 applications are handled by the OHTB per year. Extra-provincial services are regulated "as if" they were intra-provincial services.

Bus operations in Ontario are regulated as to entry, exit and fares. In all, about 500 applications are handled each year, consisting largely of transfer and changes of licences, charter rights, and fare revisions. Since the approval of Greyhound to compete over Gray Coach routes in 1977, Ontario has allowed a large number of routes (particularly in the densely populated southern sections of the province) to be served by more than one carrier.

The legislation itself does not specify the public policy objectives to be served by regulation. However, the recent study of the intercity bus industry in Ontario conducted by the Ministry of Transportation of Ontario includes among its own objectives the development of policies "to ensure cost effective and reasonable mobility for the travelling public throughout the Province, and a financially healthy



Ontario intercity bus industry"<sup>1</sup>. Furthermore, in "Public Vehicle Policy Statement #1" issued by the Minister in 1978 four main objectives of regulation were outlined as follows:

- (a) The availability of an efficient interurban passenger bus and associated express freight service, reflecting public demand and the integration of such service with all other passenger transportation systems in Ontario;
- (b) The need for competition to ensure the best service at the lowest cost to the public, while having regard to the economic impact on the licensed carriers;
- (c) The ability and willingness of the applicant to provide service for which there is public demand, combining, as appropriate to the market to be served, marginal or submarginal and profitable services;
- (d) The suitability of the applicant's proposed scale and style of operations in the market to be served.

The licence application process is complicated by the division of responsibility between the above two bodies. Thus, the application for an operating licence is first addressed to the MTO. Thereafter:

- ▶ The OHTB holds a hearing to determine whether or not the public necessity and convenience warrants the issuing of a licence;
- ▶ If satisfied, the OHTB may issue a certificate prescribing the governing terms and conditions of the licence;
- ▶ Once a certificate is issued, the Minister may issue a licence;
- ▶ Prior to implementation, the licence holder must file with the MTO a tariff or fares which must be approved by the Minister as "fair and reasonable".

Operating licences are point to point and are automatically renewed when the vehicle licences are renewed. There is no separate charter licence since, according to the PVA, a licence to carry scheduled passengers between two points automatically entitles the carrier to pick up charters from both ends of the route and from intermediate points that are not cities, towns or villages. In fact, most companies make their money from these charters. Thus, in a 1975 hearing it was stated by the OHTB that, "The Board must re-emphasize that the regular route services provided to the public are in most cases a losing financial proposition and, therefore, the licences depend on charter and special trip privileges annexed to their licences to subsidize the regular route service." While Ontario has a number of

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<sup>1</sup>From the questionnaire survey of Ontario-based bus operators. (*Ontario Intercity Bus Fact-finding Study. Study 3 — Survey and Analysis of Intercity Bus Operators. May, 1990*).



routes that are shared by more than one carrier, these are the largely the result of route expansion by existing carriers. The difficulty for a new intercity bus operator to break into the market of an established carrier is largely a matter of poor legal representation and preparation for the Hearing process according to the OHTB spokesperson.

A scheduled service cannot be discontinued until after written notice has been given to the Minister. However, this is normally allowed provided the carrier can demonstrate sufficient financial hardship from serving the route. Furthermore, the Minister may suspend or cancel a licence if after 30 days there has been failure to provide service, financial incompatibility, illegalities, or failure to comply with licence conditions.

Rate regulation is in effect through the "tariff of toll" which is affixed to all licences. Should a company wish to raise fares, it must obtain the approval of the Board, which may or may not go to a hearing, depending on the circumstances. Rate applications are readily approved unless they exceed certain guidelines (amended periodically).

In general, the regulatory regime for the intercity bus industry in Ontario has been, at least until the election of the NDP government, somewhat more liberal than in the majority of Canadian provinces. However, the new government is reportedly in favour of stringent regulation of the intercity bus industry in the province.

## **6. Québec**

The regulation of intra-provincial bus transportation in Québec is administered by the Commission des transports du Québec (CTQ) under the authority of the Québec Transport Act (Loi sur les transports). Extra-provincial services are regulated "as if" they were intra-provincial services.

Bus operations in the province are strictly regulated as to entry, exit and fares. The CTQ has eight classes of operating authority, including a class for intercity transportation (i.e., scheduled regular route services) and a class for charter services. The regulations with respect to all classes fall under the "Règlement sur le transport par autobus" of 1986. The intercity bus permit allows the permit-holder to operate charters to within 100 kilometers of any of his regular route service points. This does have the effect of introducing some competition among existing carriers in the charter area (i.e., in cases where there is more than one regular route carrier originating/terminating at a given service point).

Entry requirements are particularly stringent. The potential operator must prove that he is able (financially and technically) to offer the new service, and that the existing carrier is not able to do so in an adequate and satisfactory manner. The burden of proof is thus placed squarely on the shoulders of the applicant. A government Task Force recommended a reverse onus test in 1985 (resulting in publication of Décret 2004-85) but this initiative was stymied when Voyageur went to court and won its

case before the Cour Supérieure. The Ministère des transports is currently considering the possibility of some relaxation of the rules at this time and has set up a special committee to look into the matter. However, this has not yet held its first meeting.

The test of "intérêt public" specified under the new Règlement of 1986 takes the form of six regulatory criteria (Section 12). While this has the effect of ensuring the protection of the existing carriers, this is undertaken with a view to preserving an adequate level of transportation for the public. Transfers of operating authority are allowed as has recently been demonstrated in the case of the recent sale of virtually all of Voyageur's Québec authorities to five separate operators (Autocars Orléans Express, Intercars Saguenay Inc., Intercars Côte-Nord Inc., and two firms owned by Autobus Léo Auger Inc.).

In spite of a certain relaxation in respect of transfer of licences, the present regime continues to protect the existing carriers to the extent that:

- ▶ Exclusive rights to a given route are maintained (since market entry is really only possible by taking over an existing operation);
- ▶ Established regular route carriers can subsidize their regular route operations by offering charter service to any point in Québec from any point on their route network;
- ▶ Established carriers can transfer a part of their activities to another carrier and still retain charter privileges on the part of their routes transferred;
- ▶ The Commission makes it relatively easy for the established carriers to modify the terms and conditions of their operating authority;
- ▶ Existing carriers enjoy "acquired rights" for an unlimited period, whereas any new intercity transport permit granted for a specific purpose has a time limit.

The CTQ agrees to a route abandonment request only when it can be shown beyond doubt, that the route is losing money. In practice, however, companies do not abandon routes that might open up a possibility for a competitor to become established in a given region.

Intercity bus tariffs were fixed by the CTQ until 1986. Under the new Règlement, however, carriers are required only to submit their fares and fare structures to the CTQ who intervene only if they consider that a fare increase is not justified. However, provided that the company can show that its costs have gone up by a similar proportion, the fare increase is usually approved. In practice, the CTQ has approved the great majority of requests in this regard.

## **7. New Brunswick**

The regulation of intra-provincial bus transportation in New Brunswick is administered by the New Brunswick Motor Carrier Board under the authority of the New Brunswick Motor Carrier Act., 1987 Extra-provincial services are regulated "as if" they were intra-provincial services.

A total of 51 bus operators are currently licensed by the board, 11 of which provide scheduled bus services within the province, and 40 are licensed to provide charter bus services.

New Brunswick is one of two provinces (with P.E.I.) that have introduced legislation consistent with the "reverse onus" provisions of the Federal legislation of 1987. Any objection to an application for a licence will be dismissed "if the board determines that the objection does not establish a prima facie case that the granting of the application would likely be detrimental to the interests of the users of public transportation services, to provincial economic or social development, or to intraprovincial, interprovincial or international commerce..." (Section 4 (4)). Emphasis is given primarily to the users of the proposed transportation service. Since the new legislation came into effect on January 1, 1988 the board has granted 10 new licenses for charter operations and 2 new licences for scheduled bus services over a specific route in the province.

Public motor bus service provided in accordance with a licence may not be discontinued "without an order of the Board which shall be granted only after a hearing upon such notice as the Board may direct" (Section 8). However, recent applications for route abandonments by SMT (which has been losing money in recent years) have been granted. Furthermore, no operator "shall sell, lease, transfer, delegate or assign its motor carrier business or its licence or any right thereunder to another person, or enter into a consolidation or merger with another person unless it files an application with the Board...and such application is granted" (Section 10 (1)).

Rates for regular route service still require the approval of the Board on the basis of a public hearing. However, several applications by SMT for rate increases have been granted in recent months. Charter rates need no approval, but must be filed.

## **8. Prince Edward Island**

The regulation of intra-provincial bus transportation in Prince Edward Island is administered by the P.E.I. Public Utilities Commission under the authority of the P.E.I. Motor Carrier Act, 1988, as amended. Extra-provincial services are regulated "as if" they were intra-provincial services. Minibus operators using vehicles of 16 seats or less are not subject to regulation.

A total of 7 companies currently have certificates of authority to perform regular route or charter service in the province, or between the island and the mainland. The



main intra-island service is Island Transit, owned by the P.E.I. Department of Transportation and Public Works.

P.E.I. is one of two provinces (with New Brunswick) that have introduced legislation consistent with the "reverse onus" provisions of the Federal legislation of 1987. Section 4 (4) of the new Act authorizes the Commission to issue an operating authority without a public hearing "unless an interested person who objects to the issue of the operating authority provides the Commission with evidence that satisfies the Commission that, in the absence of evidence to the contrary, the issue of an operating authority would be likely to be detrimental to the public interest." If a public hearing is called to hear an objection, the deliberations of the Commission are guided by the following criteria (Section 6 (1) and (2)):

- ▶ the detrimental effect, if any, the proposed service would have on the public interest; and
- ▶ the likelihood that the proposed service will be conducive to public convenience;

No discontinuance or abandonment of service is allowed without an order of the Commission pursuant to a public hearing (Section 17). An operating authority or licence is no longer transferable as per a 1990 amendment to the Act.

Fares must be approved by the Commission and requests for fare increases are evaluated on the basis of whether they are "economically reasonable and viable".

## **9. Nova Scotia**

The regulation of intra-provincial bus transportation in Nova Scotia is administered by the Nova Scotia Board of Commissioners of Public Utilities under the authority of the Nova Scotia Motor Carrier Act, as amended. Extra-provincial services are regulated "as if" they were intra-provincial services.

Bus operations in Nova Scotia are subject to strict regulation as to market entry, exit and fares. Regular route and charter bus services both require a licence granted by the Board. In reviewing an application for such a licence, Section 11 of the Act authorizes that the Board "may take into consideration:

- a) any objection to the application made by any person already providing transport facilities whether by highway, water, air or rail, on the routes or between the places which the applicant intends to serve, on the ground that suitable facilities are, or, if the licence were issued, would be in excess of requirements, or on the ground that any of the conditions of any other licence held by the applicant have not been complied with;
- b) the general effect on other transport service, and any public interest that may be affected by the issue of the licence or the granting of the approval;



- c) the quality and permanence of the service to be offered by the applicant and the fitness, willingness and ability of the applicant to provide proper service;
- d) any other matter that in the opinion of the Board, is relevant or material to the application."

These are hurdles generally sufficient to discourage would-be candidates for regular route service, particularly since the province is already well-served by Acadian Lines, the major intra-provincial carrier.

Section 21 prohibits the abandonment of service provided for in the licence, "without an order of the Board which shall be granted only after a hearing upon such notice as the Board may direct." Section 8 (2) requires the approval of the Board for any sale, assignment, lease or transfer of a licence.

The Board maintains a tight control over the rates charged for the transportation of passengers, baggage and parcel express by requiring filing and approval of all rates, and prohibits any charge not in accordance with the schedules fixed and approved by the Board (Section 20).

## **10. Newfoundland**

Jurisdiction for the regulation of intercity bus operations in Newfoundland is divided between the Federal National Transportation Agency (who have jurisdiction over Terra Transport, the largest intercity bus operator in the province) and the Motor Vehicle Registration Division (MVRD) of the Newfoundland Department of Works, Services and Transportation (the remaining intercity bus services). Provincial regulatory jurisdiction was only recently transferred from the Newfoundland Commission of Public Utilities under authority of the new Motor Carrier Act, 1990. There are currently a total of 365 certificate-holders in the province, most of whom operate sedans or 12-15 passenger minibuses.

One of the purposes for introducing a new Act was to bring the Newfoundland legislation more into line with the federal Motor Vehicle Transport Act, 1987. However, the authorities did not believe any changes in the regulation of the intercity bus industry were warranted at this time. This industry is therefore still subject to strict controls with respect to market entry and exit. Rate control is in the form of per mile or per kilometer guideline rates.

Regular route and charter bus services both require a "certificate of public convenience and necessity" granted by the Board. In reviewing an application for such a licence, section 5 (2) of the Act authorizes that the Board "may take into consideration:

- a) any objection to the application by any person already providing transport facilities, whether by highway, water, air or rail, on the routes or between the places which the applicant intends to serve, on the ground that suitable

facilities are, or, if the licence were issued, would be in excess of requirements for the area;

- b) the general effect on other transport services and any public interest which may be affected by the issuance of the certificate;
- c) the quality and permanence of the service to be offered by the applicant and the fitness, willingness and ability of the applicant to provide proper service; and
- d) any other matter that in the opinion of the Board, is relevant or material to the application".

The wording of these criteria is almost identical to that contained in the Nova Scotia legislation discussed above.

Under Section 27 of the Act, the Board is given wide discretion to influence almost all aspects of intercity bus operation. An operator may not abandon a service without the approval of the Board (Section 20), although, in practice, this is rarely refused. The Board may also require an operator to extend service under certain conditions (Section 21). Sale, re-assignment, transfer or lease of a certificate, or consolidation or merger of a bus company, require application to, and approval of, the Board (Section 7).

While Section 19 authorizes rate control, the requirement for the approval of a schedule of rates was dropped by the Board as of April 1, 1987. However, the Board issues an annual guideline rate per person per mile (or per kilometer). Companies are able to charge whatever they wish as long as this is at or below the guideline (which differs according to the type of vehicle — sedan, minibus or bus).

## **D. Carrier Opinions**

Seven intercity carriers with operations in British Columbia, Alberta, Saskatchewan, Ontario and Québec were approached for the purpose of discussing their opinions on the regulation of the intercity bus industry in Canada. These discussions were to complement the information included in the briefs already submitted by several intercity carriers to the Royal Commission. Subjects discussed included: 1) perceptions of regulation; 2) perceptions of the effects of deregulation; 3) potential alternatives to regulation; and 4) operating characteristics. We were able to complete discussions with five of the seven carriers contacted. We were unable to complete interviews with the Québec carriers.

We present below a summary of carrier opinion distilled from the carrier survey.

## **1. Perceptions of regulation of the intercity bus industry in Canada**

Observations and comments made in support of regulation include the following:

- ▶ Regulation is needed because Canada's population is insufficient to support a large number of carriers.
- ▶ If the passenger industry were not regulated, the rural areas of the province would not be adequately serviced.
- ▶ Regulation limits competition; this provides a favourable environment for those carriers that already hold licences ("the old boys club").

Points raised against the current policy of regulation include the following:

- ▶ New regulations in respect of safety checks could result in overtime and increased operating costs.
- ▶ Permitted increases in tariffs are inadequate to cover growing operating costs.
- ▶ Regulation is driven by lawyers. The costs of responding to proponents of new service can be significant.

## **2. Perceptions of the effects of deregulation**

The following are the principal observations and comments received on the subject of the potential effects of deregulating the intercity passenger bus industry.

- ▶ Deregulation would lead to price wars and all would be losers. The strongest carriers would win out in the end, and passengers would get the same service as before. Carriers would operate at break even or at a loss.
- ▶ Giving a losing route to a lower cost operator could result in the franchisee growing and becoming a threat to an existing licensed carrier.
- ▶ On lucrative corridors, service would improve, profits would be shared, and fares might decrease.
- ▶ Quality of service would decrease in lower density areas (quality of equipment would decline and the reliability of schedules would suffer).
- ▶ Deregulation would put pressure on the carrier's other sources of revenues (package express, charters and tours).
- ▶ Interlining package express might become problematic.

- ▶ Deregulation would bring instability to the industry with a large number of “mom and pops” operators entering and exiting the market.
- ▶ “Mom and Pops” operators would depress fares but would not necessarily remain in business due to ensuing price wars.
- ▶ For operators principally in the charter business (with a licence to provide remote service *and* charters), deregulation would require them to drop their scheduled service.
- ▶ Deregulation would lead to the loss of remote service. If service must be provided, the tax payer will end up subsidizing the service instead of the private sector carrier.
- ▶ Main carriers would concentrate on the high density routes and the smaller communities would lose service.

### **3. Potential alternatives to regulation**

The following are the principal observations and comments made with regard to potential alternatives to regulation of the intercity passenger bus industry.

- ▶ Adapt service in remote areas (use lower cost equipment; reduce schedules—but this would be viewed as discriminatory).
- ▶ Allow a two tariff system with higher tariffs for lower density areas (but this would be viewed as discriminatory).
- ▶ Require all carriers to post performance bonds to ensure that only the bona fide operators receive authorities.
- ▶ Continue to regulate scheduled service (control with requirement of performance bonds) and deregulate charter service.
- ▶ Provide public subsidies to scheduled carriers to operate in low density areas.

## **E. Summary**

Regulation of the intercity passenger bus industry in Canada was introduced in the early 1930's in order to stabilize a chaotic situation brought on by the depression. However, as the fortunes of the industry waxed and then began to wane, the socio-economic objectives of governments shifted to the protection of the extensive network of services that had been built up over the years, extending into most areas of the provinces. British Columbia is the only province where the socio-economic objectives of regulation of motor carriers are made explicit in the legislation. However, there is no legislative guidance to the



boards as to how they should interpret “public convenience and necessity” (or equivalent terminology as used in the various provinces). This implies that the criteria used to regulate entry are a function of historical precedent.

While all provinces regulate their respective passenger bus operations, there are considerable differences in the manner of so doing. Alberta has effectively deregulated the charter segment of the industry, having removed all geographic and other restrictions on operations and pricing. New operators have to show only that they are “fit, willing and able”. New Brunswick and Prince Edward Island have also moved to relax entry requirements, and Québec and Ontario are both taking a new look at the manner of government administration and control over the industry. On the other hand, the other western and eastern provinces continue to maintain strict controls over market entry, exit and pricing. Saskatchewan is the only province that currently provides any form of subsidy assistance to the industry.

There is strong support for continued regulation of the intercity passenger bus industry on the part of both the regulatory authorities, which see this policy as the most appropriate means of ensuring stability and accessibility of services, and the existing operators themselves, who feel they need protection in order to generate sufficient revenues to survive in a declining market.

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## IV

### ***The Effects of Regulation***

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The task of the present section is to determine the degree to which Canadian intercity bus regulation has been successful in meeting the government socio-economic policy objectives identified in the last chapter, and at what cost in terms of quality of service, price and efficiency of intercity bus operations.<sup>1</sup>

#### **A. The Major Issues**

There are two major tasks involved in this process. The first is to relate the policy objectives to the criteria in some manner. However, each province has its own peculiar situation which tends to govern the emphasis placed on the three objectives identified in the previous section. For example, the Western provinces, with their more widely scattered distribution of population, would appear to place more emphasis on maintaining service to their rural hinterlands than the more densely populated central regions of Ontario and Québec, or the Maritimes where distance is less of a factor. Thus the OHTB in Ontario has seen fit to allow a higher degree of competition on busy corridors than the regulatory agencies in other parts of the country.

Recognizing the complexity of these individual situations, we discuss each objective in terms of the criterion most closely related to it. For example, we evaluate quality of service primarily in terms of the degree to which the various regulatory boards have been successful in maintaining intercity bus services in their respective provinces. We approach price in terms of the ability of the regulatory regimes to maintain fares at levels no higher than they would have been in the absence of regulation. Finally, carrier efficiency has been looked at in terms of the costs of maintaining adequate standards of stable, reliable and safe service.

Our work also involves the contentious issue of distinguishing the regulatory effects from the important long-term technological, economic and social trends that have affected the fortunes of this industry. These include the progressive improvements in air transportation services accompanying the introduction of larger, faster, lower seat-mile cost aircraft, and the increasing use of the private automobile which has accompanied the

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<sup>1</sup>The present study did not debate the issue as to what the objectives of the government ideally should be in the field of intercity bus transportation. Clearly, however, these objectives will depend to a large extent on public choices with respect to all the other modes of passenger movement.

growth in standard of living since the depression years of the 1930's. This has tended to leave the bus industry with the stigma of an "inferior good" (i.e., the countercyclical trend for ridership to increase during recessionary periods and to fall back somewhat with a return to prosperity). On the other hand, with some notable exceptions, the financial health of the Class 1 and Class 2 carriers would appear to be reasonably sound.

As we have seen, regulation developed (and continues to serve) as a public response to these changing fortunes, constituting a way of life over virtually the entire life-span of this mode of passenger transportation. The influences of these various factors are thus inextricably linked, and there is no relevant experience in this country that could provide an alternative model of development. What we present here is a distillation of evidence and opinion drawn from a variety of sources in Canada, the United States and the United Kingdom. These include the views of industry spokesmen in the various regulatory agencies and among the carriers, including those of Michigan officials responsible for deregulating that State's intrastate bus industry in 1983, and the more detached findings of government and independent research.

## **B. The Context of the Debate**

In light of the above, we made a point of asking our various industry sources to reflect on the degree to which the current situation (i.e., with respect to quality of service, price and efficiency of intercity bus operation) is attributable to regulation of the industry per se. The resulting claims and counterclaims revealed a clear polarization of opinion which tended to reflect the interests of the parties involved. Thus, the industry and its regulators tended to favour regulation, while the theoretical literature inclined to the view that regulation no longer serves the public interest but rather the interests of the existing carriers and their regulatory masters.

The most common arguments heard from the carriers and regulatory authorities were that government control is required to:

- ▶ protect the availability and continuity of high quality services, particularly to areas which might otherwise be without public transportation service (this is the major concern);
- ▶ establish fares sufficient to cross-subsidize service to these remote areas but low enough to serve the needs of the low-income traveller and provide a competitive alternative to air and rail passenger services on trunk routes;
- ▶ reduce the need for government subsidy (since, under market entry and rate controls, "subsidies" to unprofitable — though socially desired — routes are paid out of the excess profits earned on trunk routes or in charter service);

- ▶ prevent destructive competition. (This was the original rationale for regulation of this industry. Mention was made of the ongoing effects of deregulation of the trucking industry in making this point.);
- ▶ ensure safe operation (on the premise that carriers have revenues sufficient to provide adequate maintenance of equipment).

These alleged merits of government regulation were generally phrased in the manner of a warning as to what would happen if Canadian governments were to move towards deregulation of the industry. Here again, the major concern was with the discontinuance of service to small communities that would ensue, and attendant political fall-out.

In contrast to these views, the government and academic studies are generally critical of the existing regulatory regime, arguing (largely on theoretical grounds) about the potential for route monopolies to:

- ▶ raise fares to the consumer above what they would otherwise be in a competitive environment (though this is, in effect, one of the main objectives of the regulatory authorities in their bid to maintain service at no cost to the taxpayer);
- ▶ contribute to increased concentration in the industry (since companies can expand their route networks only by acquiring other bus operations);
- ▶ occasion a number of other direct and indirect costs to users and society at large, such as underutilization of equipment and inefficient mix of vehicles — i.e., increased costs per passenger mile, unresponsiveness to changing conditions in the marketplace, and excessive rates of return from the higher fares leading to substitution of less energy-efficient modes such as the automobile;
- ▶ inhibit the establishment of good interprovincial bus links due to the present fragmented regulatory framework.

The monopolistic conditions fostered by regulation of the industry over the years has, it is argued, led to a net loss of welfare to society as a whole. Furthermore, it has been suggested that the degree of cross-subsidization is less than that claimed by the regulatory authorities.

Certain of these claims are questionable from what we now know about the historical background and rationale for regulation of the intercity bus industry in Canada. For example, criticism of regulation has been based on the arguments that:

- ▶ the industry is not a natural monopoly characterized by increasing returns to scale, and;



- intermodal competition from other modes is sufficient to mitigate any trend towards market control by the industry.

This could be true in the case of the rail or air modes. However, "natural monopoly" has never been an issue in the case of bus (or truck), but rather the instability and deterioration of service resulting from "destructive competition". Such arguments are thus misplaced in building a case against regulation of this industry.

In light of these general remarks, we found as follows:

### C. Regulation and Quality of Service

As mentioned above, we evaluate the effects of regulation on quality of service in terms of the ability of the regulatory authorities to stem the erosion of service to outlying areas of the intercity transportation network, particularly to those areas which have no alternative means of public transportation available. The best measure is the measure of what happened in other countries, specifically in the United States, as a result of the easing of entry and exit that accompanied the deregulation of the intercity bus industry. Review of the literature reveals that communities had been losing service in the United States as a result of socio-economic influences long before deregulation. The 1987 study by Serge Gervais<sup>1</sup> quotes a 1980 U.S. study as follows:

"The demand for regularly scheduled intercity bus service in small communities is relatively small and has been declining for more than a decade. These declines are the root cause of the service cutbacks that have taken place during the same period. Most route patterns and schedules are designed to meet the needs of those traveling between major population centers. As a rule, intercity bus routes follow major highways and bus traffic between urbanized areas and large rural places where demand is greatest. There have been significant reductions in intercity bus service in rural and small urban communities in the past decade. It is estimated that approximately 1,800 places have lost all service since 1972. In the ten case study areas the number of one way schedules declined by approximately eleven percent between 1969 and 1979."

Gervais comments that "since fewer than 15,000 communities are directly served by intercity buses today, this implies that more than 10% of the communities receiving bus service in 1972 had lost service before the passage of the BRRA."

Passage of the BRRA in 1982 prompted a sudden rush of new entries into the charter segment of the intercity market and a further erosion of regular route service. A 1984

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<sup>1</sup>Gervais, Serge. *Deregulation of the Bus Industry in the United States*. Transport Canada. Policy and Coordination. TP 8846-E, November 1987.

study of actual and proposed service additions and deletions since deregulation<sup>1</sup> showed that by September 1983 a total of 1,294 points in 41 states were reported as having been, or proposed to be, dropped from the timetables of intercity regular route carriers. The ICC found that 1,045 of those points were in communities that had no alternative bus service. This is clearly the result, not of deregulation per se, but of the pent-up demand for service discontinuance that would have happened anyway, though at a slower pace. As the Gervais study suggests, the reason for the controversy was the magnitude of the phenomenon. "Discontinuance is now public knowledge rather than remaining strictly between carriers and public utilities."<sup>2</sup>

Discussion with officials of the Michigan Department of Transportation confirmed these conclusions. Michigan had experienced such pressure to discontinue service in the early and mid 1970's that the state introduced a number of support programs for the bus industry in 1976. These included:

- ▶ Passenger Terminal Program to assist the intercity bus industry with the escalating costs of downtown terminals;
- ▶ Intercity Bus Capital Equipment Loan Program which leased state-owned bus equipment for intercity services at a nominal \$1 per annum per bus; and,
- ▶ Intercity Bus Operations Program to "assure the citizens of Michigan access to a network of public transportation services through the development, improvement, and maintenance of intercity bus passenger services to link Michigan's small urban and rural communities to major population and commercial centres."

The problem of falling demand was thus endemic to the industry long before the intrastate segment was deregulated in 1983. Again, deregulation was followed by a spate of service discontinuance in favour of charter operations. By 1987, the number of bus service miles had fallen by 40 percent, and the number of communities served had been reduced from 575 in 1982 to just under 400 in 1987. The number of regular route carriers fell over the same period from twelve to three, while the flood of charter applications was responsible for the total number of licensed carriers increasing from 55 in 1982 to 120 in 1986. These developments are illustrated on the Michigan network maps for 1982, 1986 and 1990 contained in Appendix C, which also describes the Michigan experience in more detail.

The American experience, both federal and state, would appear to suggest that, if anything, regulation succeeded in its intended effect of maintaining service on low-density routes, albeit at great cost to the companies involved. Much time and energy was

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<sup>1</sup>Interstate Commerce Commission. Office of Transportation Analysis. *The Intercity Bus Industry*. Washington, January, 1984.

<sup>2</sup>Gervais. *Op cit*, p. 49.

spent on the hearing process, which became so complex and costly for all parties that Greyhound, the largest carrier, finally came out in support of the idea of deregulation.<sup>1</sup>

This trend towards route and service discontinuance is also evident in Canada. As we have already shown in Section II (page 11), the number of points served by the scheduled intercity bus industry fell by 13% from 3,428 points in 1978 to 2,978 points according to the latest edition of Russell's Bus Guide. The situation varies from province to province. In general, the Prairie provinces appear to have been most successful in retaining their scheduled bus services, particularly in the tightly controlled provinces of Saskatchewan and Manitoba. The Province of New Brunswick appears to have lost the greatest percentage of its service points over this period, possibly due to the new Motor Carrier Act of 1987. However, while SMT (Eastern) Limited did abandon certain routes over secondary highways and shift operations to the principal highways of the province subsequent to this legislation, the Motor Carrier Board decision of November 1988 does not reveal the number of points involved.

The available evidence suggests, therefore, that the Canadian situation is somewhat analogous to U.S. conditions prior to passage of the BRRA. In spite of regulation of entry and exit in this country, there has been a market erosion of scheduled intercity bus service, particularly in the East and in British Columbia. However, two important differences between the two countries must be borne in mind. In contrast to the situation in the United States where the regulatory burden on the carriers eventually became unbearable, the Canadian carriers appear to be content with the status quo. This is reflected in the position papers submitted to the Royal Commission as well as in our survey of five intercity carriers. The implication is that the benefits enjoyed by the carriers as a result of regulation continue to outweigh the regulatory costs imposed by the hearing process in this country. The other major difference is that the charter segment of the market has not, up to the present, represented the magnet that it exercised for carriers in the United States.

In sum, it would seem that the regulatory authorities of the various provinces have, by and large, been an effective brake against the persistent pressure for discontinuance of services in this country. The comments of the carriers would appear to bear this out. Deregulation would, according to our survey, induce certain carriers to discontinue a number of marginally profitable services on their networks.

## **D. Regulation and Price**

We approach the issue of price by seeking to determine whether the inherent limitations of competition implied by the regulatory model have resulted in prices (i.e., fares) above what they might have been in the absence of regulation. On the face of it, the answer would be affirmative, since a major purpose of the regulatory authorities has been, as we

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<sup>1</sup> Greyhound sponsored a major study on the subject in 1981 entitled *Deregulation of the Intercity Bus Industry* conducted by Management Analysis Center Inc.



have seen, to preserve service on low-density routes by enabling firms to generate sufficient revenue in other operations to cross-subsidize these unprofitable routes. The results of our survey conducted for this study, and our knowledge of the financial performance of several carriers, confirm that operators do cross-subsidize between routes and between market segments, including scheduled service, charter, BPX and others. In effect, the users of certain bus intercity trunk services or charter services are being "taxed" to subsidize passengers travelling on other (lower density) routes. Although researchers have claimed that the extent of cross-subsidy is limited<sup>1</sup>, the fact that it does occur can be substantiated for both Canada and the United States.<sup>2</sup> In addition, it would appear that, in contrast to other declining industries such as steel and automobiles, the Canadian intercity bus industry has continued to enjoy good financial returns even in the face of significant long-term declines in the demand for its products. For these reasons, regulation might be expected to produce higher fares than would otherwise be the case on high-density routes, and lower fares than they would otherwise be on low-density routes (assuming these low-density routes would receive any service at all under a free-market regime).

Experience in the United States suggests that this could well be the case. A 1983 University of Colorado study<sup>3</sup> found that after deregulation in that country bus fares on competitive high density routes began to fall as companies began to compete among themselves and with low-cost airlines for the available traffic. Thus, the Greyhound fare on the Boston to Augusta route came down by 20% against a 16% drop for Trailways. On the Boston to New York route the drop was 28% by both companies, and on the New York to Chicago route, the fares were rolled back by 31%. However, the average level of fares rose significantly, suggesting that fares on other (presumably low-density) routes went up even more.

A special feature of the U.S. situation, not likely to be repeated in Canada, was the intense competition exercised by the rapid growth of budget airlines such as Peoples' Express in the early 1980's which also had the effect of reducing fares over high-density

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<sup>1</sup>G.B. Reschenthaler. *Performance under Regulation: The Canadian Intercity Bus Industry*. Bureau of Competition Policy. Consumer and Corporate Affairs Canada. Research Monogram Number 10, Ottawa, 1981, pgs. 84-99 and 121; and Ramsdell, Edward L. *Cross-subsidization Report for the Intercity Bus Industry*. U.S. Department of Transportation. Transportation System Center. Transportation Information Management Division. Information Management Branch. Cambridge, Mass. April 1982, p. 6.

<sup>2</sup>In the year following implementation of the BRRA, the U.S. Motor Carrier Ratemaking Commission studied the exit of carriers from 2,154 points across the country. Carriers provided revenue and cost data for a number of route segments studied, and documented annual losses of \$7 million on variable costs, and more than \$13 million on a fully-allocated cost basis. A number of routes did not have any revenue at all.

<sup>3</sup>Cunningham, Lawrence F. and Thompson, Kenneth N. *Assessing the Impacts of Regulatory Reform in the Intercity Bus Industry*. University of Colorado at Denver. Faculty Working Paper Series. College of Business and Administration. 1983.



competitive routes.<sup>1</sup> An example of this phenomenon in Michigan was the introduction of a cheap air fare by Southwest Airlines between Detroit to Chicago, which forced significant reductions in bus fares over this route. An important additional competitive factor in the case of Michigan has been Amtrak, which continues to enjoy large Michigan state subsidies. It is reported that the Kalamazoo to Chicago bus fare is less now than it was fifteen year ago as a result of this situation. We must therefore be cautious in the extent to which we attribute the fare reductions reported on many routes in the United States to the effects of deregulation alone.

In the United Kingdom, on the other hand, the experience with deregulation was that competitors matched fares by adopting the distance-related general fare scale which already existed, and tacitly coordinated periodic increases to keep fares up with or ahead of inflation.<sup>2</sup>

The U.S. evidence would suggest that bus fares on the trunk routes in this country are also somewhat higher than they might be under free-market competition. Whether the average level of fares is higher or lower is a moot point (although costs also appear to be higher under regulation as indicated in the next section). In this connection we must remember that the regulatory authorities in this country also appear to value the intercity bus as a competitive alternative to rail and air transportation in areas where they compete. This should tend to place a limit on the amount of fare increases the regulatory boards would tolerate in their attempts to satisfy the conflicting demands of the travelling public (for competitive fares) and the needs of the carriers (for profitable operation). The intercity bus industry still serves as the low-cost alternative for segments of the population who would otherwise not be able to travel at all.

After sifting all the evidence, we conclude that some fares would rise and others (primarily on high-density routes) would fall should there be any move towards decontrol of this industry. However, in contrast to the United States where it was reported that the average level of bus fares actually rose, we believe that it is more likely, through use of non-union labour with smaller operators on rural routes discontinued by the larger carriers, that the average level of prices could stay the same or even go down somewhat (even without the competition from the airlines that occurred in the United States).

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<sup>1</sup> Kahn, Jeremy (Kahn and Kahn, Washington, D.C.). *Stopping by the Bus Terminal on a Dark and Stormy Night: The U.S. Bus Industry Seven Years after Deregulation*. *Transportation Law Journal*, Vol. XVIII No. 2, 1990.

<sup>2</sup> Evans, Andrew. *Competition and the Structure of Local Bus Markets*. *Journal of Transport Economics and Policy*, September, 1990.

## E. Regulation and the Efficiency of Intercity Bus Operations

It has been argued that the efficiency of intercity passenger bus operations under conditions of regulation is less than it would be under conditions set by the market. As we found in Section II. C, it cost more to carry less in 1988 than it did in 1978, a sure sign that production efficiency is slipping. This is undoubtedly due, in part, to the attempt by the various regulatory authorities, to maintain service in the face of declining demand.

This conclusion would appear to be warranted by review of what happened to cost and efficiency of intercity bus operations in the United States and the United Kingdom in the aftermath of deregulation in those two countries. In the United States, deregulation apparently resulted in significant cost reductions, albeit resulting in a much more regionalized industry with the demise of the so-called "national" carriers, Greyhound and Trailways. The recent history of these two carriers is instructive since they adopted somewhat different strategies to remain viable. The path followed by Greyhound was to discontinue service to over 1,100 service points, pare its work force, and take an uncompromising attitude in labour negotiations with the Amalgamated Transit Union (ATU). A new agreement was reached which involved a wage cut-back of 15%, better work rules, and institution of a two-tiered wage scale whereby new employees received substantially less than those already on the job. In late 1983, Greyhound demanded a further 9.5% pay cut among other concessions from the ATU. This led to agreement only after a bitter seven-week strike which saw the company's operating ratio peak to 105.8.<sup>1</sup> Further difficulties with the ATU led the company to turn over the operating part of the business to franchisees and to regional subsidiaries. These carriers were expected to enjoy a lower cost structure through the use of non-union labour, and to be profitable in areas where Greyhound was losing money. However, the continuing transfer of routes to subsidiary companies was thwarted by an arbitrator's ruling on September 3, 1986 which found such transfers in violation of the existing labour agreement. With failure of the negotiations on a new labour agreement the company finally sold all its domestic bus operations in December 1986 to a group headed by Fred G. Currey, a former chief executive officer of Trailways Inc. Although this company did finally reach agreement on a new package with the ATU, a succession of poor decisions by management has now resulted in the company seeking Chapter 11 bankruptcy protection from its creditors.

Trailways also followed a policy of "spinning off" light-density routes and services to independent subsidiary companies, and in fact had begun dropping stops and routes from its schedules even before the BRRA. In contrast to Greyhound, however, this was made

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<sup>1</sup>R.L. Banks & Associates. *Conclusions suggested for Canada by Bus Deregulation in the U.S. A Report in Conjunction with Alberta Regional Public Transport Study: Part 1 for Transportation Services Division, Alberta Economic Development and Trade. Washington, February 11, 1987.*

possible by a much more conciliatory approach to labour negotiations. Just before deregulation, the company transferred 25 major routes to independents with lower operating costs who were, or were to become, members of the National Trailways Bus System (NTBS). In the fall of 1986 Trailways discontinued most of its scheduled service in twenty-three states across the northern half of the United States, leaving the field free for the growth of independents. The company also attempted to improve its productivity by instituting an Employee Stock Ownership Plan (ESOP). However, this did not materialize, and the company was subsequently taken over by Greyhound. While no hard cost data is available from the many studies reviewed for this purpose, it would be difficult not to conclude that costs have fallen (and productivity improved) considerably since 1982, primarily due to union pay cuts and the increasing use of non-union labour by the new regional operators.

Substantial cost reduction would also appear to be the result of deregulation in the United Kingdom. A study by Transmode<sup>1</sup> reports that the cost of operating bus services outside the London area fell by over 20% in real terms, due in part to an adjustment in wage rates and in part to lower costs of operating a different mix of buses than before. Also mentioned was a reduction in the cost of fuel as a result of freeing the operators from the constraints of government procurement policies. One effect of this has been a reduction in subsidy of 110 million pounds sterling, or by 34%. Another study specifically concerned with cost<sup>2</sup> found that the competitive environment created by deregulation forced the operators to look for cost savings to improve efficiency of operations and remain viable. During interviews, former NBC operators claimed to have reduced costs per bus mile by 15-20% since deregulation, while PTC operators claimed cost reductions averaging 30%. About two-thirds of this was the result of labour productivity improvements, the balance coming from wage reductions, falling fuel prices and extensions to vehicle life.

Among Canadian studies, the two major sources of cost attributable to regulation have been identified by Boucher,<sup>3</sup> as:

- ▶ higher administrative costs associated with the hearing process, and:
- ▶ additional operating costs resulting from:
  - ▶ wage escalation;

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<sup>1</sup>Craig, Victor. *An Overview of Private Sector Participation in Public Transit in the United Kingdom*. Transmode Consultants, 1989.

<sup>2</sup>Heseltine, P.M. and Silcock, D.T. *The Effects of Bus Deregulation on Costs*. *Journal of Transport Economics and Policy*, September, 1990.

<sup>3</sup>Boucher, Michel. *l'Industrie Québécoise du transport par autocar: réglementation, pratiques et performance*. Transports Canada. Politiques et coordination. Analyse économique. Ottawa. Octobre, 1990. TP 10689-F.



- ▶ increased schedule density beyond what would occur in a competitive environment, and;
- ▶ the need to cross-subsidize low-density routes.

In the specific case of Voyageur there seems little doubt that, over a period of years, labour has managed to secure a share of what Boucher regards as the higher "monopoly" return earned by the company as a result of its "political investment" in regulation. The company did become involved in a cycle of wage demands leading to fare hikes which reportedly pushed driver wages higher than those paid for comparable skills in other industries.

It is also possible that the company used the additional revenue derived from these fare hikes in competing more effectively with air and rail by increasing schedule density beyond the needs of the market, thus increasing the costs of operation still further. However, the extent to which cross-subsidization (or the lack of it) influenced the company's cost structure is less clear.

Other more indirect results of regulation that have been suggested by Reschenthaler and others include a high degree of concentration and regionalization of the industry (including a certain fragmentation of route structures leading to difficult connections between Central Canada and the Maritime Provinces), lack of innovation in equipment and services, underutilization of equipment, inflation of company profits, and a "regulatory rapprochement" between regulator and regulated in which the interests of the carrier predominate over the interests of the travelling public.<sup>1</sup>

In sum, we would conclude that intercity bus transportation costs in Canada are higher than they would be in a free market, and that relaxation of regulatory controls would bring about a similar reduction in costs as has occurred elsewhere. On the other hand, higher costs (implying lower productivity and efficiency) might well be regarded by some as the price that must be paid to realize some other goal, such as the maintenance of stable, reliable and safe intercity bus transportation services.<sup>2</sup> The negative impact of U.S. deregulation on service stability and reliability, at least in the initial three or four years of transition, is generally acknowledged, although there is somewhat conflicting evidence over the extent of this. For example, Ramsdell and Burns<sup>3</sup> found that service frequency in the lowest frequency group of 28 or fewer trips per week actually increased

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<sup>1</sup>E.g., Chapter VIII of G.B. Reschenthaler. *Performance under Regulation: The Canadian Intercity Bus Industry*. Bureau of Competition Policy. Consumer and Corporate Affairs Canada. Research Monogram Number 10, Ottawa, 1981.

<sup>2</sup>While transportation safety is a technical rather than a socio-economic objective, it has also been included here since it was mentioned in several of the interviews with regulatory spokespersons.

<sup>3</sup>Ramsdell, Edward L. and Burns, Imogene R. *Current Trends in the Health and Structure of the Intercity Bus Industry*. Transportation Systems Center. Cambridge, Mass. 1986.



between 1976 and 1986 in a sample of 412 city pairs. Oster and Zorn<sup>1</sup>, who studied more than 3,900 communities in twelve states over the period 1975-1984, concluded that the rate of service loss following passage of the BRRA was not dramatically different from that observed prior to deregulation. Other studies and surveys by the Interstate Commerce Commission, by Kihl and others have documented substantial losses of service, particularly in rural areas. According to Kahn<sup>2</sup> carriers had eliminated or proposed to eliminate service to some 1,300 communities by September 1983 or 7-8% of the total points served by the industry. Some new companies also made their appearance (e.g., Greyhound franchisees). Kihl points out that changes in bus schedules and discontinuance of stops and services may have had relatively minor impact overall, but that it affected an important segment of the population in a rural state like Iowa dominated by small towns and rural areas, and with the third highest population of elderly citizens in the nation<sup>3</sup>.

In Michigan the impact on scheduled service resulted from the shift of focus from scheduled to charter services, and from entry of a large number of new charter operators who spoiled the market for regular route carriers. An Indian Trails spokesperson reported that the company experienced considerable financial hardship in these years as a result of dilution of their charter revenues. More recently, however, with the demise of a number of "mom and pop" operators, together with ongoing troubles at Greyhound (which they do not regard as a direct consequence of deregulation), this company has begun to regain some confidence in the future of the bus industry in that state (revenues from both regular route and charter services have been on the upswing since 1987).

It is therefore difficult to escape the conclusion that deregulation has a destabilizing effect on the intercity bus industry (lasting perhaps three or four years) as companies re-target their activities in more profitable market segments.

## F. Summary

It would appear from the foregoing that regulation of the intercity bus industry in Canada has, by and large, achieved the objectives identified in Section III. Service to the rural hinterlands of the various provinces has been maintained in the face of declining overall demand for intercity bus service in this country. Fares have been allowed to rise to

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<sup>1</sup>Oster, Clinton V., Jr., and Zorn, C. Kurt. *Impacts of Regulatory Reform on Intercity Bus Service in the United States*. *Transportation Journal*, Spring, 1986.

<sup>2</sup>Kahn, Jeremy (Kahn and Kahn, Washington, D.C.). *Stopping by the Bus Terminal on a Dark and Stormy Night: The U.S. Bus Industry Seven Years after Deregulation*. *Transportation Law Journal*, Vol. XVIII No. 2, 1990.

<sup>3</sup>Kihl, Mary. *The Impact of Bus Deregulation on Small Towns*. *Transportation Research Board, National Research Council*. *Transportation Research Record 1012*. Washington, 1985.

permit the carriers to remain profitable in this situation. However, these fares remain below the fares charged by competing modes of public transportation, viz. rail and air. The goal of maintaining a low-cost alternative to these modes for the benefit of low-income travellers might thus also be regarded as having been achieved. Finally, stable, reliable and safe service is the norm throughout the country.

On the other hand, these objectives have not been achieved without a cost, both in terms of higher fares in some cases, and less efficient (higher cost per mile) service. The regulatory boards themselves have been criticized in the manner they have routinely allowed rate increases without adequate scrutiny of costs. While this appears to be still true (except perhaps in Saskatchewan), most of these boards claim they do not have the resources to perform the kind of detailed analyses undertaken, for example, by the National Transportation Agency for the rail mode. Most boards would probably assume that a certain cost is acceptable in light of the objectives served. An example of this kind of thinking is the statement on transportation and communications deregulation presented at the Ontario New Democratic Party 1988 Convention. This reads as follows:

"WHEREAS the federal Conservative Government plans to deregulate the communications and transportation sectors, and

WHEREAS the United States deregulation has meant the destruction of hundreds and thousands of jobs, unions, reduced wages, a deterioration of services to the public, price gouging, increased safety hazards and widening regional disparity in services and prices, and

WHEREAS deregulation will affect industries where women have made important gains, and

WHEREAS the only beneficiaries of deregulation are large corporations, and

WHEREAS transportation deregulation is a pre-condition to continental free trade, and

WHEREAS deregulation will undermine Canadian economic and cultural sovereignty,

THEREFORE BE IT RESOLVED that the NDP continue to conduct a major public campaign to expose the dangers of deregulation."

Here the issue is jobs and job equity rather than price or efficiency. Clearly, the issue boils down to one of values, and whether the objectives to be served by public control of transportation are worth the extra costs (of higher fares, less efficiency, etc.).

Whether these costs can be lowered by other public policy instruments, and what the likely scenario for deregulation might be in Canada, are matters reserved for treatment in the final section of this study.



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## V.

### ***Findings and Conclusions***

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The present section builds upon the foundations laid by the analysis of information assembled from the various sources described in the foregoing sections of this report in outlining the major findings and conclusions of this study. Following a summary of the principal findings, we discuss the merits of other potential policy instruments that may serve the same objectives, and review the probable changes required in the event of deregulation.

#### **A. Principal Findings**

The following are the principal findings of the study:

- ▶ The intercity passenger bus industry continues to lose ground in relation to other modes of intercity passenger transportation, notably to the private automobile (for the shorter distances) and to the air mode (for the longer hauls);
- ▶ The financial health of the majority of Class 1 and Class 2 intercity passenger carriers remains sound;
- ▶ The major socio-economic objectives of government regulation of the intercity passenger bus industry in Canada would seem to include:
  - ▶ the retention of existing provincial intercity bus networks, particularly to towns and villages where the bus is the only available public mode, or to points in danger of losing air or rail service as a result of government policies with respect to these modes;
  - ▶ the provision of a low-cost public transportation alternative on competitive routes for low income groups who do not have access to other forms of transportation.
  - ▶ the promotion of a high degree of industry stability, reliability and safety.



- ▶ Governments have been largely successful in realizing the above goals through the regulatory process. However, in comparison with the situation that would apply in a free market environment, regulation has tended to produce:
  - ▶ higher fares on high-density trunk routes (in order to support operations on routes of lower density which might otherwise receive no service);
  - ▶ higher costs, suggesting a lower level of efficiency of intercity bus operations than would apply in a free market environment;
  - ▶ a relatively high degree of concentration in the industry;
  - ▶ a more regionalized industry structure;

These factors have often been regarded as the "costs" of regulation. However, a final balance-sheet of the benefits and the costs flowing from regulation is a matter of the values that are attached to the various objectives to be sought.

## B. Other Policy Instruments

Other policy instruments have been used or proposed to meet the socio-economic goals of regulation in a more cost-effective manner. These include:

- ▶ subsidy support of minimum levels of service;
- ▶ auctioning routes and services to lowest competitive bid offer;
- ▶ use of lower-cost (often smaller) vehicles on feeder routes such as school buses, minibuses or limousines;
- ▶ use of non-union labour;
- ▶ bus capital assistance;
- ▶ government sponsorship of unimodal or multimodal passenger terminals.

The state of Michigan is perhaps the most instructive in judging the success of these measures in practice. However, most of them were introduced well before the relaxation of regulatory controls in 1983. This period also witnessed a radical decline in the demand for intercity bus transportation, both interstate and intrastate, resulting from competition from low-cost airlines, and from subsidies paid to the rail mode (Amtrak). While the measures taken have, over the years, been adapted to the needs arising out of the new realities of the free market, they were not specifically designed to provide a substitute for regulation.

In this context, discussion with the Michigan authorities and with representative of a major intercity bus operator revealed a relatively high level of satisfaction with existing government policies. Thus, subsidy support for a minimum level of service to an area has been successful in preventing an undesirable degree of isolation in the event that a carrier wishes to discontinue service. Cost of the program in the case of Michigan has averaged about \$100,000 per annum (current costs cover two routes only). The program has been combined with route auction. What happens is that a route in danger of abandonment following an interim evaluation showing the need for service is put up for bid and funded according to the difference between \$0.30 per mile and the cost per mile of the lowest bidder for the route. Additional funding up to five years may be provided, reducing down to 50% of the amount of initial funding by the fifth year.

Limousines and minibuses have been introduced on rural routes, particularly family-owned enterprises which employ non-union labour. These operators are no longer governed by the Michigan Motor Bus Transportation Act (Act 432 of 1982), but by a separate Limousine Transportation Act (Act 271 of the Public Acts of 1990).

Capital programs have provided an indirect form of subsidy which help to reduce the need for intercity bus operating assistance. From its inception in 1976, the Michigan Intercity Bus Capital Program has purchased a total of 151 buses for intercity bus carriers operating scheduled daily regular route services in Michigan. The buses are leased to regular route operators only for a period of up to six years for \$1.00 per year per bus. Since the operator is responsible for maintenance and repairs, and must pay a prior security deposit to cover any repairs necessary to return the project unit to its original condition, less reasonable wear and tear, the final cost to the taxpayer is reported to be quite low. Thus, over the period 1976 to 1985, the loan fund payback was \$13.2 million of total expenditures of \$13.9 million.

Passenger Terminal Program assistance was designed to provide local communities with new or improved unimodal or multimodal transportation facilities. Benefits are seen to include benefits to the carriers in terms of cost savings and a reduction in equity involved in regular route service, user benefits from improved terminals and intermodal possibilities, and community benefits in terms of new investment and downtown rehabilitation. The annualized cost to the state for the Michigan program was found to be \$1.6 million (according to a 1987 study). A total of eighteen terminals has been funded since 1976, which, in many cases, have succeeded in turning a community liability into an asset. Most are municipal-owned although the facilities at Detroit, St. Joseph-Benton Harbor and Southfield are owned by the MDOT and operated by the carriers under a lease arrangement with the Department.

For additional details of the administration of each of these programs the reader is referred to Appendix D.

### **C. Changes required in the event of Deregulation.**

A deregulation scenario for Canada would likely follow the U.S. model rather than the British model of deregulation, due to the greater similarity in the situations of the two countries prior to deregulation. This suggests that change from a regulated to a deregulated transportation environment would result in:

- ▶ a period of adjustment and industry instability prompted by the enhanced competitive environment among new and existing carriers;
- ▶ further erosion of service to low-density areas as a result of reduction in frequency and/or discontinuance of services over marginally-profitable or unprofitable routes. (This trend could be mitigated to the extent these services would be replaced by smaller non-unionized operators, use of minivans etc.);
- ▶ increased attention on the part of existing intercity bus operators to cost reduction and productivity improvements; and,
- ▶ some reduction of fares on high-density trunk segments of the network as a result of competitive pressures.

Under these conditions, and to the extent that access to socially-desired transportation services falls off, some form of public support in the form of subsidy arrangements along the lines of the Michigan experience might be required. This could include one or a combination of the measures described under sub-section B, above. In addition, the experience of the state of Michigan suggests that greater attention may have to be paid to ensuring that the operators carry a sufficient amount of liability insurance, and that safety is carefully monitored through periodic safety checks.



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## **Appendix A.**

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## ***Appendix B***

### ***List of Contacts***

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Motor Vehicle Department  
Ministry of Solicitor General  
4240 Manor Street  
Burnaby, B.C.  
V5G 3X5  
Mr. Ronald Finlayson, Acting Compliance Director  
Motor Carrier Division  
Tel: (604) 660-5454

National Transportation Agency  
15 Eddy Street  
Hull, Québec  
Mr. Guy Proulx, Director  
Rail Complaints, Tariffs and Mediation Directorate  
Tel: (819) 997-6270

Public Utilities Commission  
Confederation Court Building  
134 Kent Street, Suite 501  
P.O. Box 577  
Charlottetown, P.E.I.  
C1A 7L1  
Ms. Diane Gaudet, Administrator  
Motor Carrier Division  
Tel: (902) 892-3501

## **2. Intercity Bus Operators**

Gray Coach Lines Inc.  
180 Dundas Street West, Suite 1100  
Toronto, Ontario  
M5G 1Z8  
Mr. William L. Verrier, Vice-Chairman  
Tel: (416) 393-7800

Ontario Northland Transportation Commission  
555 Oak Street East  
North Bay, Ontario  
P1B 8L3  
Mr. Ernie Marasco, V. P. Passenger Services  
Tel: (705) 472-4500

Highway Transport Board  
151 Bloor Street West, 10th Floor  
Toronto, Ontario  
M5S 2T5  
Mr. Felix D'Mello, Secretary  
Tel: (416) 965-1845

Motor Carrier Board  
Provincial Building  
110 Charlotte Street  
Saint John, New Brunswick  
E2L 2J4  
Mr. D.W. Sanders, Secretary  
Tel: (506) 658-2502

Motor Carrier Commission  
108-4240 Manor St.  
Burnaby, B.C.  
V5G 3X5  
Mr. Mert Rowden, Special Assistant  
Tel: (604) 660-2903

Motor Transport Board  
Room 200-301 Weston Street  
Winnipeg, Manitoba  
R3E 3H4.  
Mr. L.G. Olijnek, Secretary  
Tel. 204-945-8915

Motor Transport Board  
4th Floor, Provincial Building  
4920 51st Street  
Red Deer, Alberta  
T4N 6K8  
Ms. Diane Wilson, Director Bus Department  
Tel: (403) 340-5598

Motor Vehicle Department  
Ministry of Solicitor General  
4240 Manor Street  
Burnaby, B.C.  
V5G 3X5  
Mr. Ronald Finlayson, Acting Compliance Director  
Motor Carrier Division  
Tel: (604) 660-5454

National Transportation Agency  
15 Eddy Street  
Hull, Québec  
Mr. Guy Proulx, Director  
Rail Complaints, Tariffs and Mediation Directorate  
Tel: (819) 997-6270

Public Utilities Commission  
Confederation Court Building  
134 Kent Street, Suite 501  
P.O. Box 577  
Charlottetown, P.E.I.  
C1A 7L1  
Ms. Diane Gaudet, Administrator  
Motor Carrier Division  
Tel: (902) 892-3501

## **2. Intercity Bus Operators**

Gray Coach Lines Inc.  
180 Dundas Street West, Suite 1100  
Toronto, Ontario  
M5G 1Z8  
Mr. William L. Verrier, Vice-Chairman  
Tel: (416) 393-7800

Ontario Northland Transportation Commission  
555 Oak Street East  
North Bay, Ontario  
P1B 8L3  
Mr. Ernie Marasco, V. P. Passenger Services  
Tel: (705) 472-4500



Pacific Coach Lines Ltd.  
737 Humboldt Street  
Victoria, British Columbia  
V8W 1B1  
Mr. Ron Davis, General Manager  
Tel: (604) 385-5731.

Pacific Western Transportation  
1828 Drew Road,  
Mississauga, Ontario  
L5S 1J6.  
Mr. Mark C. Hannah, General Manager  
Tel: (416) 672-0290

Saskatchewan Transportation Co.  
2041 Hamilton Street  
Regina, Saskatchewan,  
S4P 2E2  
Mr. Leo P. Larsen, President  
Mr. Greg Beattie, General Manager  
Ms. Patricia S Fry  
Tel: (306) 787-3346

### **3. Other Contacts**

Mr. Brad Cows  
Assistant Transportation Officer  
Motor Carrier Policy Office`  
Ministry of Transportation  
1201 Wilson Avenue  
Downsview, Ontario  
M3M 1J8  
Tel: (416) 235-3618

Ms. Karen Cameron  
Ontario Motor Coach Association  
Suite 412  
234 Eglinton Avenue East  
Toronto, Ontario  
M4P 1K5  
Tel: (416) 488-8855

Mr. Brian E. Crow  
President and CEO  
Ontario Motor Coach Association  
Suite 412  
234 Eglinton Avenue East  
Toronto, Ontario  
M4P 1K5  
Tel: (416) 488-8855

Mr. Frank D'Onofrio  
Head, Bus Policy Section  
Motor Carrier Policy Office  
Ministry of Transportation  
1201 Wilson Avenue  
Downsview, Ontario  
M3M 1J8  
Tel: (416) 235-3602

Mr. Ed Ramsdell  
United States Department of Transportation  
Transport Systems Centre  
Cambridge, Massachusetts  
Tel: (617) 494-2053

Mr. Ed Rastatter  
Chief, Regional Review and Planning Division  
United States Department of Transportation  
Washington, D.C.  
Tel: (202) 366-4420

Mr. Robert I. Stein (Source of documents on U.S. experience)  
Office of the Secretary  
United States Department of Transportation  
Washington, D.C. 20590  
Tel: (202) 366-4846  
Fax: (202) 366-7618

Mr. Robert Vandiver  
Legal Department  
Florida Public Service Commission  
Tel: (904) 487-2740



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## Appendix C

### *Deregulation in Other Countries*

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While conditions are never quite the same elsewhere, the experience of other regulatory regimes can provide important insights to assist in evaluating the impact of regulation in this country, and in identifying policy options better suited to achieving the socio-economic objectives of Canadian governments in intercity passenger transportation.

#### A. The United States Experience

From 1935 until the mid-1970's, the intercity bus industry in the United States was regulated by how the Interstate Commerce Commission (ICC) interpreted and implemented the objectives of the Motor Carrier Act of 1935, **"to promote safe, adequate, economical and efficient transportation and to encourage sound economic conditions among carriers"**. This was traditionally accomplished by means of a partnership with the carriers which gave them protection from unnecessary and destructive competition. Over the years, the regulatory process, both at the federal and state levels, became so complex and burdensome that the existing carriers themselves began to question its merits. Huge costs were involved in staffing departments concerned only with the hearing process, and new carriers were often prevented from entering the market by the huge expenditure in legal fees and the interminable hearing process.

The system began to fall apart during the latter half of the 1970's when the ICC began to relax its strict entry controls. This unfortunately led to a period of federal and state regulatory chaos. The situation deteriorated to the point where Greyhound, which had originally been staunchly anti-deregulation, finally committed itself to total deregulation of the industry, publicly calling for an end to all entry, exit and rate regulation, and the preemption of all state jurisdiction in these areas.

The result was the **Bus Regulatory Reform Act of 1982 (BRRA)**. While the BRRA did not totally deregulate, and most states continued to regulate intrastate busing (Michigan and Florida were notable exceptions), this legislation did represent a quantum reduction in a regulatory structure that had remained virtually unchanged for 45 years.

Once again, the problem of attributing causes to the subsequent effects makes it difficult to be conclusive about the extent to which this action has contributed to the current state of the industry. However, it is generally conceded that the goals of the Congress incorporated in the BRRA have been accomplished, or at least that the U.S. intercity bus passenger and the industry itself would have been worse off under a continuation of the



previous regime. Thus, an ICC study entitled, The Intercity Bus Industry (1984) concluded that:

"The Bus Act is working. Actual and potential competition rather than regulatory decree are slowly becoming the primary determinants of fare and service levels in the industry".

Furthermore, the Report to the President and Congress of the United States by the Motor Carrier Rate Making Commission (1984) found as follows:

1. "The evidence clearly shows that the implementation of the Bus Regulatory Reform Act has significantly benefitted the vast majority of bus riders;
2. Most communities losing bus service will not be adversely affected to any great degree, because the data show that persons residing in those communities, including older Americans, have not intensively used the available service; and
3. The needs of the relatively few persons who may be adversely affected by the loss of bus service, including older Americans, can be met by the utilization and proper coordination of federal, state, and local transportation resources."

There is no question that some reduction in service has occurred, particularly in service to remote areas and along low-density routes. However, in spite of the reportedly large number of service points that were dropped, it has been shown that the population affected represented only about 0.5% of the total population served. It must also be remembered that there was intense pressure to abandon routes and service points in the years leading up to regulatory reform. Frank L. Nageotte, president and chief operating officer of Greyhound at the time, also continued his endorsement of the BRR (e.g. at the Eno Foundation conference in October 1984).

## **B The Michigan Case**

Michigan has a population of approximately 9.1 million, most of whom are located in the southern half of Michigan's lower peninsula which contains 39 of the state's 83 counties and all 15 urbanized areas. The greatest concentration (3.9 million) is in the Detroit area (Wayne, Oakland and Macomb counties).

Michigan provides an excellent laboratory for the study of public policy alternatives with respect to the administration of the intercity passenger bus industry since, in contrast to the vast majority of other states, Michigan effectively abolished all entry, exit and rate controls in intrastate operations following federal passage of the BRR in 1982. Prior to this date, both regular route and charter services in Michigan were regulated to the point that charter rights were tied to carrier commitments to serve a combination of mainline and low-density regular scheduled routes. Abandonment of a regular route was practically

impossible. However, with the support of the Michigan Motor Bus Association, Act 432 of the Michigan Public Acts of 1982 abolished this system and transferred jurisdiction for intra-state bus affairs from the Michigan Public Service Commission to the Michigan Department of Transportation (MDOT).

According to spokespersons of the MDOT, the state of Michigan is currently the most deregulated jurisdiction in the Union. State control is limited to safety and insurance requirements. To obtain a Certificate of Authority to operate a regular route or charter service the applicant is required only to:

- ▶ submit a letter of application with details of the service to be offered;
- ▶ provide a list of equipment (vehicle roster) with evidence that vehicles have passed State inspection;
- ▶ submit a Certificate of Insurance with specific bodily injury and property damage protection of \$5 million plus \$1 million Michigan basic no-fault coverage; and
- ▶ pay an application fee of \$300.

There are currently 99 Certificate holders plus approximately 20 "limo carriers" — bus/limousines with capacity of 15 passengers or less.

Deregulation of the intrastate bus industry in Michigan, following federal deregulation in 1982, involved an abrupt loss of public leverage over industry operations, specifically the ability to maintain scheduled service over unprofitable routes. The result was a reduction in intercity bus service miles and in the number of communities served due to route abandonments as carriers shifted out of regular route service into the more profitable charter/tour service. By 1987 the number of bus service miles had fallen 40 percent, and the number of communities served had been reduced from 575 in 1982 to just under 400 in 1987. This isolated many Michigan communities, leaving them without any form of public transportation. Due to the flood of applications for charter authority, the number of authorized carriers had increased from 55 in 1982 to 120 in 1986. However, the number of regular route operators had fallen from twelve before deregulation to only three. These developments are illustrated by the Michigan network maps for 1982 and 1986 attached to Appendix C.

On the other hand, MDOT spokespersons emphasize that these losses were taking place in a context of generally falling ridership, prompted by a number of factors initiated well before intrastate bus deregulation came into effect, including airline deregulation and the introduction of Amtrak service in 1978. Thus, daily ridership on the top ten bus corridors (nine of which include Detroit) declined 17% between 1977 and 1985. As far back as 1973, the world energy crisis had prompted the MDOT to embark on the design and development of Intercity Bus Programs which would ensure essential transportation services for the population, and which would contribute to the economic development of the state. The objectives were twofold:

- ▶ preserve a basic network of intercity bus routes; and,
- ▶ support the tourist industry.

This resulted in the introduction of both capital and operating assistance programs to the intrastate passenger bus industry in 1976.

For subsidy administrative purposes, Michigan is now divided into two sections, a "CORE" network of five major corridors in the south, and the northern (low-density) segment of the State. Cost reduction measures in the form of capital assistance are favoured over revenue-enhancement in the form of operating subsidy. The program structure was revised by the State Transportation Commission on April 27, 1988 to include the following:

#### **a) Cost Reduction Programs:**

Two programs are available to assist regular route operators to reduce costs, the:

- ▶ **Passenger Terminal Program** designed to assist the bus industry with escalating fixed costs, and to co-ordinate all modes of transportation into single facilities. Funding is made available to local communities and intercity carriers for the development and construction or renovation of terminal facilities in Michigan. Facilities are leased to the bus operators at a rental which covers the basic cost of maintenance and utilities; and the,
- ▶ **Intercity Bus Capital Equipment Loan Program** which leases state-owned buses to established regular route operators at a nominal lease rental of \$1 per bus per annum. Carriers are responsible for all operating costs, including the necessary maintenance and insurance coverage, taxes, licence fees and regulatory costs. These buses are dedicated to a designated regular route, and may not be used in charter service.

#### **b) Revenue Enhancement Programs:**

In addition, the MDOT provides revenue support for carrier operations in the northern half of the State through the:

- ▶ **Intercity Bus Operations Program** designed "to assure the citizens of Michigan access to a network of public transportation services through the development, improvement, and maintenance of intercity bus passenger services to link Michigan's small urban and rural communities to major population and commercial centers". It is aimed primarily at reversing recent trends towards rural route abandonment in non-"CORE" areas. This Program consists of three distinct program elements as follows:



- ▶ **Regular Route "Savior" Program** — designed to create a climate in which bus companies can be profitable on a regular scheduled route and, thus, would not consider service elimination on that route;
- ▶ **Service Continuation Program** — designed to assure continued service with respect to a planned discontinuance of service under Section 27 of Public Act 432 of the Public Acts of 1982;
- ▶ **Demonstration Project Program** — to provide for new operations (Operating Projects) and for service in support of existing operations.(Support Service Projects).

Programs are funded through a gasoline tax of 2¢ a gallon paid into a Comprehensive Transportation Fund. Complete details of all these programs are provided in Appendix D.

The major lessons that may be learned from the Michigan experience are that abrupt relaxation of long-standing regulatory rules produces considerable initial disruption characterized by a drop in rates for charter service, a fall in overall revenues and profits for established carriers, and a reduction in the quality of both regular route and charter service. However, this transition period of three or four years is followed by an adjustment to the new competitive conditions. Rate cutting by the numerous non-unionized "mom and pop" operators comes to an end as they are replaced by more responsible carriers.

The consensus is that the industry has now adjusted to the new competitive environment, and that deregulation has brought no radical changes in the overall efficiency, prices and quality of service of the remaining regular route operators. It is the view that the current problems of the industry are no longer the result of deregulation, but are endemic to this mode, and have been exacerbated by the recent difficulties experienced by Greyhound and Tower/White Pine Transit, both of which are in bankruptcy reorganization.

## C. The British Experience

Regulation of transportation was not in keeping with the political philosophy of the Conservative Government of Margaret Thatcher. In particular, publicly-owned industries and monopolies such as the National Bus Company (NBC) were broken up and/or privatized. In addition, the Transport Act of 1980 did away with a regulatory system dating back to 1930.

The main aims of this legislation were stated that year by the then Secretary of State for Transport, Norman Fowler, to be as follows:

- ▶ The removal of bureaucratic restriction;



- ▶ The need to ensure that almost everyone gains proper access to public transport; and
- ▶ The provision of maximum choice to the user by facilitating competition.

Contrary to what might be expected in the light of North American experience, it was actually hoped that deregulation would lead to an **expansion** of services to areas which had previously not been well served by this mode of transport. It was also hoped that competition would lead to a reversal in the decline of intercity bus passenger travel.

In large part these hopes were not realized. It was found, for example, that a majority of the attempts by private sector companies to outmanoeuvre the established publicly-owned carriers failed. There was a strong reticence on the part of new entrants to face established carriers that enjoyed the benefits of a substantial infrastructure and established public profile in the marketplace.

Due to differences in the industry structure and transportation environment in the U.K., these results are not regarded as directly relevant for Canada. However, they do serve to illustrate the extent to which the effects of deregulation are dependent on the specific conditions obtaining in the previously regulated environment.









